ACCOUNTANCY

HIGHER SECONDARY

FIRST YEAR

Vol. II

TAMILNADU TEXTBOOK SOCIETY

ACCOUNTANCY

(ELEMENTS OF BOOK-KEEPING)

Vol. II

HIGHER SECONDARY—FIRST YEAR

TAMILNADU TEXTBOOK SOCIETY
MADRAS

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First Edition—1978
Revised Edition—1981

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Price : Rs. 3-10

This book has been printed on concessional paper of 60 G. S. M. substance made available by the Government of India.

PRINTED AT :
T. KRISHNA PRESS, MADRAS-600 012.

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CHAPTER XIII

FINAL ACCOUNTS

The Trial Balance marks a definite stage in the preparation of Accounts. It indicates that all the transactions for a particular period have been duly entered in the book, properly posted and balanced.

But the Trial Balance is not an end in itself. The businessman is interested in knowing whether the business has resulted in a profit or a loss and what the financial position of the business is at a given time. In brief, he wants to know (*a*) the business results and (*b*) the soundness of the business. The trader can ascertain these by preparing the Final Accounts. The Final Accounts are prepared from the Trial Balance. Hence the Trial Balance is said to be the connecting link between the Ledger Accounts and the Final Accounts.

FINAL ACCOUNTS

Trading and Profit & Loss Account (in the case of a Trader or a Merchant).

Manufacturing and Profit & Loss Account (In the case of a Manufacturer).

Balance Sheet

The above chart presents the composition of the Final Accounts—the first part made up of Trading and Profit & Loss Account and the second part made up of Balance Sheet.

TRADING AND PROFIT & LOSS ACCOUNT

This account enables the trader to find out the Net Profit or the Net Loss arising from his transactions during a given period. The first part of the Account is known as the Trading Account and the second part is known as the Profit & Loss Account.

The Trading Account

Trading means buying and selling. The Trading Account serves to show the result of buying and selling of goods. In its simple form, the Trading Account appears as shown below :

Trading Account for the year ending 31-12-1975

Dr. Cr.

	Rs.		Rs.
To Purchases	...	By Sales	...
„ Gross Profit	...		
	...		...

The difference between the selling price and the buying price (Cost Price) constitutes Gross Profit.

In practice the Trading Account contains a few more items. Items appearing on the debit side are :

(1) Stock-on-hand at the commencement of the period; also termed as Opening Stock.

(2) Total Purchases (credit & cash) made during the year less value of goods returned to suppliers.

(3) Expenses which increase the cost of the goods purchased—Freight, Carriage Inward, Cartage, Duty paid on Purchases, Clearing Charges, Dock Dues, Coal, Gas and Water.

Items appearing on the credit side of Trading Account are :

(1) Total Sales (Credit & Cash Sales) during the year, less the value of goods returned by customers.

(2) The Stock-on-hand at the end of the period known as the Closing Stock.

Explanation of the items shown on the debit side of the Trading Account :

(1) Purchases-The balance of Purchases Account, which the Trial Balance shows, represents the Total purchases made during the year (Cash as well as Credit Purchases).

The Returns Outwads or Purchase Returns must be subtracted from the total purchases and only the Net Purchases must be shown in the amount column.

If any purchases had been made by the proprietor for his personal use, such purchases must be deducted from the Total Purchases.

(2) Direct Expenses—Expenses, inurred in connection with acquiring goods, or making them more saleable, fall under this head. These expenses are shown on the Debit side of Trading A/c. Such Expenses are :

(*a*) Freights or Freight on Purchases or Freight Inwards.

(*b*) Carriage or Carriage Inwards.

(*c*) Wages or Productive Wages or Manufacturing Wages.

(*d*) Octroi Duty—a Duty paid on goods for bringing them within municipal limits.

(*e*) Customs Duty, Dock dues, Import Duty, Clearing Charges, Landing Charges etc.,

(*f*) Fuel, Power and Lighting.

(*g*) Oil, Grease and Waste.

(*h*) Packing Charges, when such charges are incurred with a view to put the goods in a saleable condition etc. If, however, finished goods are packed for their safe or attractive despatch to customers, such charges will be shown in Profit & Loss Account.

Stock in Trading Account

(1) Opening Stock : This represents the goods on hand at the beginning of the period. The Trial Balance includes this item. This Opening Stock must be added to the Purchases, in order to ascertain the total value of the goods available for the purpose of Trading Account.

(2) Closing Stock : This item usually appears outside the Trial Balance. It represents the value of goods lying unsold at the end of the Trading period. Its value is ascertained in the following manner :

(*a*) A list of all the goods is prepared after physical checking. This is called **Stock-taking.**

(*b*) The value of the goods is assessed. This is known as **Stock Valuation.** Stock is valued either at cost price or at market price, whichever is lower. This is based on the principle that prudencc demands the ignoring of expected profits. It must be remembered that the Closing Stock will appear as the Opening Stock of the next period.

The following Journal entries have to be passed in order to prepare the Trading Account. Through these entries, the accounts whose balances have to be transferred to the Trading Account are closed.

		Dr.	Cr.
(1)	Trading A/c	...	
	To Opening Stock A/c		...
	,, Purchases A/c		...
	,, Direct Expenses A/c		...
	(Being transfer to Trading A/c)		
(2)	Sales A/c Dr.	...	
	Closing Stock A/c Dr.	...	
	To Trading A/c		...
	(Being the transfer to Trading A/c)		
(3)	Trading A/c Dr.	...	
	To Profit & Loss A/c		—
	(Being the transfer of Gross Profit to the P & L A/c)		

SPECIMEN FORM OF A TRADING ACCOUNT

Trading Account for the year ending 31-12-1973

Dr. Cr.

To Opening Stock		—	By Sales	...	
,, Purchases	...		Less Returns Inwards	...	
Less Returns Outwards	...				
		...	,, Closing Stock		
,, Freight	...	...			
,, Carriage Inwards		...			
,, Clearing Charges		—			
,, Dock Dues		—			
,, Wages	...	—			
,, Profit & Loss A/c		...			
		...			...

Illustration-1

Prepare a Trading Account from the following information relating to a trader :

Total Purchases made during the year 1977 ..	Rs.	8,000
Total Sales during the same year ..	Rs.	11,000

Trading Account for the year ending 31st December, 1977

Dr. Cr.

	Rs.		Rs.
To Purchases ..	8,000	By Sales	11,000
„ Gross Profit ..	3,000		
	11,000		11,000

Illustration-2

The books of a trader shows the following items :

	Rs.
Stock on 1st January, 1976	5,000
Purchases for the year	11,000
Sales for the year	20,500

Ascertain his Gross Profit by preparing the Trading Account.

Trading Account for the year ending 31st December, 1976

Dr. Cr.

	Rs.		Rs.
To Stock (1-1-1976) ..	5,000	By Sales ..	20,500
„ Purchases ..	11,000		
„ Gross Profit ..	4,500		
	20,500		20,500

Illustration-3

From the following figures, ascertain the Gross Profit for the year ending 31st December, 1975 :

			Rs.
Opening Stock (1-1-1975)	..	..	25,000
Goods purchased during 1975	..	..	1,40,000
Sales during 1975	,,	..	1,90,000
Closing Stock (31-12-1975)	..	..	30,000

Trading Account for the year ending 31st December, 1975

Dr. Cr.

	Rs.		Rs.
To Opening Stock ..	25,000	By Sales ..	1,90,000
,, Purchases ..	1,40,000	,, Closing Stock ..	30,000
,, GrossProfit ..	55,000		
	2,20,000		2,20,000

Illustration-4

Construct a Trading Account from the following Ledger Balances on 31st December 1973:

		Rs.	Rs.
Stock on 1st January, 1973	..	2,000	
Purchases A/c	..	18,000	
Sales Account	..		25,000
Returns Inwards A/c & Outwards A/c		1,000	500

Stock on 31st December, 1973 is Rs. 1,500

Trading Account for the year ending 31st December, 1973

Dr. Cr.

	Rs.	Rs.		Rs	Rs.
To Opening Stock ..		2,000	By Sales ..	25,000	
,, Purchases ..	18,000		Less Returns Inwards	1,000	
Less Returns Outwards	500				
		17,500			24,000
,, Profit & Loss A/c (Gross Profit)		6,000	,, Closing Stock ..		1,500
		25,500			25,500

Illustration-5

Pick out items relating to the Trading Account and construct a Trading Account for the year ending 31st December, 1973.

1973				
Jan	1	Stock of goods	—	2,000
Dec	31	Purchases	—	7,000
		Wages (Productive)	—	1,500
		Freight on goods bought	—	750
		Marine Insurance on Purchases	—	250
		Duty on Goods Imported	—	400
		Salaries to clerks	—	1,200
		Wages to office & shop assistants	—	300
		Motive Power	—	120
		Carriage Inwards	—	75
		Sales	—	15,000
		Stock	—	3,000
		Packing Materials	—	200
		Returns Inwards	—	400
		Returns Outwards	—	300
		Office Lighting	—	250

Note : While picking out the items, care must be taken to choose only those items of expenses which increase the cost of the goods purchased. Expenses incurred for the maintenance of office, such as Salaries to clerks, Wages to office and shop assistants, and Office Lighting must be excluded.

Balancing of Trading Account

The difference between the two sides of the Trading Account indicates either Gross Profit or Gross Loss. If the total of credit side is heavier, the difference represents Gross Profit; on the other hand, if the total of debit side is heavier, the difference represents Gross Loss. The Gross Profit or the Gross Loss is transferred to the Profit & Loss A/c in order to ascertain the true profit or the true loss.

Trading Account for the the year ending 31st December, 1973

Dr.	Rs.	Rs.		Rs.	Rs. Cr.
To Opening Stock A/c		2,000	By Sales A/c	15,000	
,, Purchases A/c	7,000		Less	400	
Less Returns Outwards	300	6,700	Returns Inwards A/c		14,600
,, Freight on Purchases		750	,, Closing Stock A/c		3,000
,, Marine Insurance on Purchases A/c		250			
,, Duty on Goods Imported A/c		400			
,, Carriage Inwards A/c		75			
,, Motive Power A/c		120			
,, Wages (Productive) A/c		1,500			
,, Packing Materials A/c		200			
,, Profit & Loss A/c (Gross Profit)		5,605			
		17,600			17,600

Profit & Loss Account

Profit & Loss Account is intended for enabling the Trader to ascertain the Net Profit earned or the Net Loss suffered during a trading period, say a year.

To start with, the Gross Profit (the balance of Trading Account) is brought down to Profit & Loss Account and shown on the credit side.

Credit side of Profit & Loss Account

Besides the Gross Profit, other gains or incomes of the business are shown on the credit side. It is not unusual for a business house to have some minor or miscellaneous items of gains or income. Typical of such gains are items such as Interest received on Investments or Fixed Deposits with Banks, Discounts Earned or Commission Earned.

Debit side of Profit & Loss Account

The items appearing on the debit side of a Profit & Loss Account may be grouped under four heads :

(i) Management expenses	:	Office Salaries, Office Rent, Office lighting, Printing and Stationery, etc.,
(ii) Maintenance expenses	:	Repairs and Renewals, Depreciation, etc.,
(iii) Financial expenses	:	Interest on Loans
(iv) Selling expenses	:	Advertising, Travelling Expenses, Salesmen's Salaries, Cost of Samples, Packing Charges, etc.,

SPECIMEN FORM OF A PROFIT & LOSS ACCOUNT

Profit & Loss Account for the year ending 31-12-1973

Dr.	Rs.	Cr.	Rs.
To Trading A/c—Gross Loss ..		By Trading A/c Gross Profit ..	
,, Salaries A/c ..		,, Dicounts Received A/c ..	
,, Rent, Rates and Taxes A/c ..		,, Commission Earned A/c ..	
,, Printing and Stationery A/c ..		,, Interest Received A/c ..	
,, Postage and Telegrams A/c ..		,, Interest from Investments A/c ..	
,, Insurance Premium A/c ..		,, Apprentice Premium A/c ..	
,, Repairs and Renewals A/c ..		,, Rent from Tenants A/c ..	
,, Sundry Trade Expenses A/c ..		,, Capital A/c—Net Loss	

,, Interest A/c	..		
,, Bank Charges A/c	..		
,, Office Expenses A/c	..		
,, Establishment Expenses A/c	..		
,, General Expenses A/c	..		
,, Stable Expenses A/c	..		
,, Office Lighting A/c	..		
,, Maintenance of Cars or Van; A/c	..		
,, Loss by Fire or by theft A/c	..		
,, Commission A/c	..		
,, Advertisement A/c	..		
,, Carriage Outwards A/c	..		
,, Discount A/c	..		
,, Travelling Expenses A/c	..		
,, Distribution Expenses A/c	..		
,, Depreciation A/c	..		
,, Bad Debts written off A/c	..		
,, Capitial A/c—Net profit A/c	..		
		...	...

Illustration-6

Prepare Trading and Profit & Loss Account from the following Ledger balances :

		Rs.	Rs.
Stock on 1-1-1973	...	2,000	
Purchases A/c	...	18,000	
Sales A/c	...		21,000
Wages A/c	...	300	
Carriage Inwards A/c	...	100	
Carriage Outwards A/c	...	150	
Returns Inwards A/c	...	2,000	
Returns Outwards A/c	...		1,000
Salaries A/c	...	2,400	
Rent A/c	...	600	
General Expenses A/c	...	500	
Discount A/c	...	50	
Commission A/c	...		1,800

Stock at close—on 31-12-1973 was valued at Rs. 9,000

Trading and Profit & Loss Account
for the year ending 31-12-1973

Dr. | Cr.

	Rs.	Rs.		Rs.	Rs.
To Opening Stock A/c		2,000	By Sales A/c ...	21,000	
,, Purchases A/c ...	18,000		Less Returns Inwards A/c ...	2,000	19,000
Less Returns Outwards A/c ...	1,000	17,000	,, Closing Stock A/c ...		9,000
,, Wages A/c ...		300			
,, Carriage Inwards A/c ...		100			
,, Profit and Loss A/c (Gross Profit) ...		8,600			
		28,000			28,000
To Salaries A/c ...		2,400	By Trading A/c (Gross Profit) ...		8,600
,, Rent A/c ...		600			
,, General Expenses A/c ...		500	By Commisson A/c ...		1,800
,, Discount A/c ...		50			
,, Carriage Outwards A/c ...		150			
,, Capital A/c (Net Profit) ...		6,700			
		10,400			10,400

Review of Trading and Profit & Loss Account

The items going into the Trading Account have a definite stamp about them and are easy to pick out. The equation given below presents a simplified picture of the Trading Account.

Stock at commencement + Purchases + Direct Expenses + Gross Profit	=	Sales +	Stock at close of the period.

After transferring the relevant items to the Trading Account the other expenses (Nominal items)which are left over in the Trial Balance will be transferred to the debit side of the Profit & Loss Account. If there are incomes or gains, they are transferred to the credit side of Profit & Loss Account.

Illustration-7

S. Kumar, a trader supplies you with the following information which relates to the period of 1-1-1973 to 31-12-1973.

	Rs.
Purchases	2,200
Freight on Goods Bought ..	150
Carriage Inwards	40
Wages	60
Opening Stock	800
Sales	4,500
Gross Profit	4,100
Returns Inwards	250
Returns Outwards	100

As he has mislaid his stock valution list, he requests you to ascertain the value of the Closing Stock.

The student must make use of his knowledge of a Trading Account and find out the value of Closing Stock by balancing the Account as shown below :

S. Kumar's Trading Account for the year ending 31-12-1973

	Rs.	Rs.		Rs.	Rs
To Opening Stock A/c		800	By Sales	4,500	
,, Purchases A/c	2,200		Less Returns Inwards	250	
,, Less Returns Outwards A/c	100	2,100			4,250
			,, Closing Stock (Balance figure)		? (3000)
,, Wages A/c		60			
,, Freight on Purchases A/c		150			
,, Carriage Inwards A/c		40			
,, P. & L A/c (Gross Profit)		4,100			
		7,250			7,250

The Value of Closing Stock is Rs. 3,000.

Difference between Trading Account and Profit & Loss Account

These two Accounts together represent the general grouping of all Nominal Accounts which are maintained for showing profits or losses of a given period.

Trading Account is the name given to the first section and Profit & Loss Account is the name given to the second section of such grouping.

Trading Account comprises of those items which make up the cost price of the goods sold and the selling price of the goods sold together with the Opening Stock and the Closing Stock respectively.

Profit and Loss Account deals with the selling and distribution expenses, the administration expenses and expense of financing. These expense are set off against the profits or income of the business. In this way, the net result of trading during a given period is ascertained.

The following two items call for special treatment in final accounts : (1) Drawings and (2) Income Tax.

(1) **Drawings:** This item does not represent an expense for the business concern. This is a personal expense for the proprietor and hence it must be debited to his Capital Account. The benefit enjoyed by the proprietor in the shape of using some of the goods of the firm or using the firm's car must be treated as Drawings; to that extent the charge to the Profit & Loss Account will go down.

(2) **Income Tax:** In the case of a Sole Trader or a Partnership firm, Income Tax paid is considered as a personal expense of the Proprietor or Partners. It is debited to the Capital Account. It should not be transferred to the Profit & Loss Account.

Illustration-8

From the following balances extracted from the books of S.Raj on December 31, 1973 prepare Trading and Profit & Loss Account. Compile a trail balance of tho accounts still left open in the Original Trial Balance.

TRIAL BALANCE

	Rs.		Rs.
Opening Stock ...	10,600	Returns Outwards ...	150
Wages and Salaries ...	2,200	Sales	25,200
Carriage ...	200	Discount received ...	400
Commission on Purchases	300	Capital	7,000
Purchases	12,000	Creditors	830
Returns Inwards ...	440	Loan	1,400
Trade Expenses ...	580		
Rent	200		
Plant	2,600		

Repairs to Plant	...	460	
Cash in hand	...	200	
Cash at Bank	...	1,000	
Debtors ...	...	3,000	
Income Tax	...	500	
Drawings ...	...	700	
		34,980	34,980

Stock remaining unsold on 31-12-1973, Rs. 3,000

Trading and Profit & Loss Account for the year ending 31-12-73

Dr. **Cr.**

	Rs.	Rs.		Rs.	Rs.
To Opening Stock A/c		10,600	By Sales		
„ Purchases A/c	12,000		Less	25,240	
Less Returns Outwards A/c	150	11,850	Returns Inwards A/c	440	24,760
„ Carriage A/c		200	„ Closing Stock A/c		3,000
„ Commission on Purchases A/c		300			
„ Profit & Loss Account (Gross Profit)		4,810			
		27,760			27,760

	Rs.		Rs.
To Wages & Salaries* A/c	2,200	By Trading Account (Gross Profit)...	4,810
„ Rent A/c ...	200	„ Discount Received A/c ...	400
„ Trade Expenses** A/c	580		
„ Repairs to Plant A/c	460		
„ Capital A/c (Net Profit) ...	1,770		
	5,210		5,210

*When Wages are clubbed with Salaries as Wages and Salaries' or 'Salaries and Wages' the item is always shown in Profit & Loss A/c.

**Trade Expenses are always shown in the Profit & Loss A/c. If however, the Trial Balance contains two items, (i) Office Expenses and (ii) Trade expenses, Office Expenses is shown in Profit & Loss A/c and Trade Expense is shown in Trading A/c.

On completion of the Profit & Losseg Account, the Net Profit is credited to the Capital Account. In the same manner, Drawings and Income Tax are debited to the Capital A/c. The entries to give effect to the above items are:

		Rs.	Rs.
(1) Profit & Loss A/c	Dr.	1,770	
To Capital A/c	...		1,770
(Transfer of Net Profit to Capital A/c).			
(2) Capital A/c	Dr.	1,200	
To Drawings A/c	....		700
To Income Tax A/c	...		500
(Transfer of Drawings and Income Tax to Capital A/c)			

BALANCE SHEET

Definition : This forms the second part of the Final Accounts It is prepared after the Trading and Profit & Loss Accounts have been compiled and closed. A **Balance Sheet** may be described as a statement of the financial position of a concern on a given date. The financial position or worth of a concern is revealed by its Assets on a given date and its Liabilities on that date. Excess of Assets over Liabilities represents Capital. Such excess may be taken as an indicator of the financial soundness of a concern.

A Balance Sheet may, therefore, be defined as a statement which sets out the Assets and Liabilities of a business firm and which serves to ascerain the financial position of the samc on any particular date.

On the left hand side of this Statement, the Liabilities and the Capital are shown. On the right-hand side, all the Assets are shown.

Therefore, the two sides of the Balance Sheet must always be equal. Otherwise, there is an error somewhere.

SPECIMEN OF A BALANCE SHEET

Balance Sheet of.............................as on...........

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Sundry Creditors		...	Cash in hand		—
Bills Payable		...	Cash at Bank		...
Bank Overdraft		...	Bills Receivable		...
Loans		...	Sundry Debtors		...
Mortgage		...	Closing Stock		...
Reserve Fund		...	Investments		...
Capital	...		Furniture & Fittings		...
Add Net Profit	...		Loose Tools		...
	—		Plant & Machinery		...
	...		Horses & Carts		...
Less Drawings	...		Land & Buildings		...
,, Income Tax	...		Freehold or Leashold Lands		...
	—		Business Premises		...
			Patents & Trade Marks		...
		—	Goodwill		...
		...			—

Assets — Liabilities = Capital (or)
Assets = Capital + Liabilities

Nature of Balance Sheet

(1) The Balance Sheet is prepared as on a particular date. The information furnished by the Balance Sheet is true on that date and not later. The capital position of a concern keeps changing, from time to time. Hence the Balance Sheet is never prepared to cover a period.

(2) A Balance Sheet is not an Account. It is a Statement showing the Assets, Liabilities and Capital of a particular concern.

(3) A Balance Sheet is intended to reveal the financial position of a concern. The Trading and Profit & Loss Account is useful in its own way—it shows the profit earned by the business during a given period. But we would like to have more information. What is the financial worth of the business ? In order to answer this question we must know (i) the nature and value of Assets, (ii) the nature and value of Liabilities, and (iii) the amount of Capital. These particulars are available from the Balance Sheet.

ASSETS

Assets represent everything which a business owns and has money value. Alternatively, we may say, Assets represent the possessions and properties of the Business.

Classification of Assets

Characteristics :

Fixed	*Floating*	*Fictitious*
(*a*) Durable (*b*) Used in business over and over again. E.g., Land & Buildings, Machinery, Trucks, etc.	(also called Current Assets). (*a*) Meant for resale (*b*) likely to undergo change (*c*) meant to be converted into cash. E.g., Cash, Book Debts, Stock, etc.,	Fictitious Assets are assets which have no real value but must appear on the Assets side of the Balance Sheet as they already appear as debit balances in the Ledger. Eg., expenses of floating a Company known as Preliminary Expenses.

LIABILITIES

All that the business owes appear as **Liabilities.** They include the Credit Balances of Personal and Real Accounts together with the Proprietor's Capital Account.

Classification of Liabilities

Characteristics

Fixed Liabilities	Current Liabilities	Contingent Liabilities
will be redeemed after a long period of time. E.g., Long Period Loan Capital.	will have to be redeemed in the near future (within a year). E.g., Trade Creditors, Bank Loans, Bills Payable etc.,	(*a*) not actual liability at present (*b*) might become a liability in future on condition that the contemplated event occurs. (*c*) This is not shown in the Balance Sheet. E.g., Liability in respect of pending suit.

Arrangements of Liabilities and Assets in Balance Sheet

The Assets and Liabilities require to be shown in the Balance Sheet in a certain order. There are two ways of presenting them.

Arrangement of Assets

(1) In the order of liquidity or realisability	(2) In the order of permanence
Cash in hand	Buildings
Cash at Bank	Furniture
Securities and Investments	Plant & Machinery
Bills Receivable	Stock
Sundry Debtors	Sundry Debtors
Stock	Bills Receivable
Plant & Machinery	Securities & Investments
Furniture	Cash at Bank
Building, etc.	Cash in hand

Arrangement of Liabilities

(1) In the order of dischargeability	(2) In the order of fixity
The most urgent Liabilities are shown first followed by more or less permanent Liabilities	The Liabilities, which have to be discharged last or not at all are shown first followed by more pressing Liabilities
Bills Payable	Capital
Trade Creditors	Loans
Loans	Trade Creditors
Capital	Bills Payable

Difference between a Trial Balance and a Balance Sheet

	Trial Balance	*Balance Sheet*
(1)	It is a list of balances of all Ledger Accounts ; no account can be left out.	It is a Statement of Assets and Liabilities; only Personal and Real accounts appear here.
(2)	Its object is to check the arithmetical accuracy of the Ledger postings.	Its object is to reveal at a glance the finacial position of the business concerns.
(3)	It includes the Opening Stock.	It includes the Closing Stock.
(4)	It is prepared whenever desired, often at the end of every month.	It is usally prepared at the end of the trading period—a year.
(5)	It does not give information about the profits. The Capital balance does not include the profits.	Information about profits is available from the Balance Sheet for the Capital balance includes the profits.
(6)	It is not absolutely necessary to prepare the Trial Balance. It can be dispensed with.	Preparation of Balanee Sheet is absolutely necessary to complete the accounting process.
(7)	It is generally prepared without giving effect to any adjustments.	It cannot be prepared without making adjustments for outstandings, prepayments, etc.
(8)	It contains the headings 'Debit' and 'Credit'.	It contains the headings, 'Liabilities' and 'Assets'.

Illustration-9

The following balances are extracted from the books of Thiru Selvam on 31st December, 1970. Prepare (i) a Trial Balance from the Balances and (ii) Trading and Profit & Loss A/c for the year ended 31st December, 1970 and (iii) a Balance Sheet as on the closing date.

	Rs.		Rs.
Selvam—Capital	15,000	Stock (1-1-1970) ...	15,000
Drawings	3,000	Purchases ...	60,000
Furniture & Fittings	500	Sales ...	80,000
Typewriters ...	1,000	Returns Outwards ...	500
Cycles ...	250	Returns Inwards ...	1,000
Sundry Debtors ...	15,000	Carriage Inwards ...	750
Sundry Creditors ...	13,500	Carriage Outwards ...	1,250
Rent ...	2,400	Rates and Taxes ...	600
Salaries ...	3,600	Cash on hand ...	2,425
Discounts allowed to Customers ...	425	General Expenses ...	1,800

Stock on hand as on 31-12-1970 is Rs. 11,000

Trial Balance of Thiru Selvam as on 31-12-1970

Debit	Rs.	*Credit*	Rs.
Selvam—Drawings	3,000	Selvam - Capital ...	15,000
Furniture & Fittings	500	Sundry Creditors ...	13,500
Typewriters ...	1,000	Sales	80,000
Cycles	250	Returns Outwards ...	500
Sundry Debtors ...	15,000		
Rent	2,400		
Salaries	3,600		
Discount allowed to Customers ...	425		
General Expenses ...	1,800		
Stock (1-1-1970) ...	15,000		
Purchases ...	60,000		
Returns Inwards ...	1,000		
Carriage Inwards ...	750		
Carriage Outwards...	1,250		
Rates & Taxes ...	600		
Cash on hand ...	2,425		
	1,09,000		1,09,000

Hint: It must be remembered that the debit balance will find a place in (*a*) the debit side of Trading A/c or (b) the debit side of Profit and Loss A/c or (*c*) the Assets side of Balance Sheet.

The credit balances will find a place in (*a*) the credit side of Trading A/c or (*b*) the credit side of Profit & Loss A/c or (*c*) the Liability side of the Balance Sheet.

Trading and Profit Loss & Account for the year ending 31-12-1970

Dr. **Cr.**

Dr.		Rs.	Cr.		Rs.
To Opening Stock A/c ...		15,000	By Sales A/c	80,000	
„ Purchases A/c	60,000		Less Returns In wards A/c	1,000	
„ Less Returns Outwards A/c	500				79,000
		59,500	„ Closing Stock		11,000
„ Carriage Inwards A/c ...		750			
„ Profit & Loss a/c (Gross Profit)		14,750			
		90,000			90,000
To Salaries A/c		3,600	By Trading a/c (Gross Profit)		14,750
„ Rent A/c		2,400			
„ Discount allowed to Customers A/c		425			
„ General Expenses A/c		1,800			
„ Carriage Outwards A/c		1,250			
„ Rates and Taxes A/c		600			
„ Capital A/c (Net Profit)		4,675			
		14,750			14,750

Balance Sheet as on 31-12-1970

Liabilities		Rs.	*Assets*	Rs.
Sundry Creditors		13,500	Cash on hand ...	2,425
Capital	15,000		Sundry Debtors ...	15.000
Add Net Profit	4,675		Stock	11,000
			Furniture & Fittings ...	500
	19,675		Typewriters	1,000
Less Drawings	3,000		Cycles	250
		16,675		
		30,175		30,175

QUESTIONS

1. What is meant by Gross Profit? How is it ascertained?
2. Explain the meaning of Direct Expenses. Give examples.
3. How do you deal with 'Returns Outwards' and 'Returns Inwards' in the Trading a/c?
4. Explain the terms 'Opening Stock' and 'Closing Stock. How is Closing Stock valued and treated in Accounts?
5. Examine how the following items are dealt with?
   (*a*) Unproductive Wages.
   (*b*) Productive Wages.
   (*c*) Trade Expenses.
   (*d*) Packing Charges.
6. What are the objects of preparing Final Accounts?
7. Bring out the difference between the Trading Account and the Profit & Loss Account.
8. Distinguish between 'Gross Profit' and 'Net Profit.'
9. Discuss the importance of Profit & Loss Account and explain the terms 'Gross Profit' and 'Net Profit.'

10. What is a Balance Sheet? Why is it prepared?

11. In what respects does a Trial Balance differ from a Balance Sheet? How are they useful to a trader?

12. Define the term 'Asset'. How are Assets generally classified? Give two illustrations of each type of Asset.

13. Explain the terms 'Assets' and 'Liabilities.'

14. Point out the order in which Assets and Liabilities must be arranged in the Balance Sheet.

15. Prepare Trading Account from the following balances extracted on 31-12-1972:

	Rs.
Purchases	4,800
Wages	400
Stock at Commencement ...	1,200
Returns Outwards	200
Return Inwards	300
Sales	9,300
Carriage Inwards	250

Stock on 31-12-1972 was valued at Rs. 1,500

(G. P. Rs. 4,050)

16. Prepare Trading Account from the information given below:

	Rs.
Stock on 1-1-1973	3,600
Stock on 31-12-1973	4,800
Cash Purchases	12,000
Credit Purchases	9,000
Cash Sales	22,000
Credit Sales	10,000
Carriage on Purchases ...	500
Carriage on Sales	400
Rent (Factory)	600
Rent (Office)	300
Sales Returns	600
Purchases Returns	800
General Expenses	500
Discount Allowed	300

(G. P. Rs. 11,300)

17. From the following Trial Balance and given that Stock on Deeember 31, 1970 is Rs. 4,500, prepare Trading and Profit & Loss Account for the year ending 31-12-1970 and a Balance Sheet as on that date.

Trial Balance

	Rs.	Rs.
Purchases and Sales ...	13,500	26,000
Trade Expenses	400	
Office Expenses	450	
Salaries & Wages	3,500	
Heating and Lighting ...	550	
Carriage	300	
Returns	600	500
Discounts allowed	200	
Discounts received ...		300
Bank Charges and Commission	100	
Interest received		150
Stock	6,000	
Cash at Bank	12,000	
Capital		10,650
	37,600	37,600

(G. P. Rs. 9,650 ; N. P. Rs. 5,850 ; B/S Total Rs. 16,500)

Hint : Trade expenses—Trading A/c. Salaries and Wages—Profit & Loss A/c.

18. From the following Trial Balance of S. Anand as at 31-12-1973, you are required to prepare the Trading and Profit & Loss Account for the year ended 31-12-1973 and a Balance Sheet as on that date,

Dr. Balances.	Rs.	Cr. Balances.	Rs.
Stock	45,000	Sales	4,20,000
Purchases	2,25,000	Capital	92,950
Plant and Machinery	75,000		
Trade Charges ...	10,000		
Carriag In ...	2,500		
Carriage Out ...	1,500		
Factory Rent ...	1,500		
Discount	350		
Insurance	700		
Sundry Debtors ...	60,000		
Office Rent ...	3,000		
Printing & Stationery	600		
General Expenses ...	2,800		
Advertising ...	15,000		
Bills Receivable ...	3,000		
Drawings ...	6,000		
Salaries ...	18,000		
Manufacturing Wages	20,000		
Furniture & Fixtures	7,500		
Coal, Gas & Water	1,000		
Cash in hand ...	2,000		
Cash at Bank ...	12,500		
	5,12,950		5,12,950

Stock on 31-12-1973 — Rs. 15,000

(G. P. Rs. 1,40,000 ; N. P. Rs. 88,050 ; B/S Total Rs. 1,75,000)

19. The following Trial Balance has been taken from the books of Thiru S. Raman as on 31-12-1969. You are required to prepare the Trading and Profit & Loss Account for the year ended 31-12-1969 and a Balance Sheet as at that date.

Debit Balances	Rs.	Credit Balances	Rs.
Drawings ...	4,800	Capital ...	50,000
Stock (Ist Jan. 1969)	30,000	Sundry Creditors	15,000
Furniture and Fittings	13,000	Bank Loan at 6%	20,000
Printing and Stationery	1,200	Discount Received	1,000
Coal, Gas and Water	600	Sales ...	2,35,350
Freight & Clearing Charges ...	3,500	Bills Payable ...	1.700
Purchases ...	75,000		
Income Tax ...	9,500		
Discounts allowed ...	950		
Repairs to Plant ...	1,000		
Factory Rent ...	2,500		
Salaries	2,800		
Manufacturing Wages	24,000		
Advertsiing ...	19,000		
Plant & Machinery	70,000		
Office Rent ...	3,600		
Miscellaneous Expenses	1,000		
Bills Receivable ...	12,500		
Carriage Outwards...	1,500		
Insurance ...	600		
Interest ...	1,200		
Cash at Bank ...	7,500		
Cash in hand ...	3,500		
Sundry Debtors ...	33,800		
	3,23,050		3;23,050

Stock on hand on 31-12-69, Rs. 40,000

(G. P Rs. 1,39,750; N. P. Rs. 1,07,900; B/S Total Rs. 1,80,300)

20. The following balances are extracted from the books of Arumugam on 31st December, 1960. Prepare Trading and Profit & Loss Account for the year ended 31st December, 1960 and a Balance Sheet as at the closing date.

	Rs.		Rs.
Arumugam Capital	15,000	Stock (1-1-60) ...	15,000
,, Drawings	3,000	Purchases ...	60,000
Furniture & Fittings	500	Sales	80,000
Typewriters ...	1,000	Returns Outwards	500
Cycles	250	Returns Inwards...	1,000
Sundry Debtors ...	15,000	Carriage Inwards	750
Sundry Creditors	13,500	Carriage Outwards	1,250
Rent	2,400	Rates and Taxes...	600
Cash on hand ...	5,900	Cash at Bank ...	2,350

Stock on hand as on 31-12-1960, Rs. 11,000

21. Prepare Trading and Profit and Loss Aceount for the year ending 31-12-1971 and Balance Sheet as at that date.

	Rs.
Capital Account	10,000
Plant and Machinery... ...	4,000
Sundry Debtors	2,400
Sundry Creditors	1,200
Drawings	1,200
Purchases	10,500
Wages	5,000
Bank	1,000
Repairs	50
Stock 1-1-1971	2,000
Loan from X	7,000
Returns Outwards	50
Rent	400
Sales	16,400
Manufacturing Expenses ...	800
Trade Expenses	700
Bad Debts	200
Carriage	150
Bills Payable	700
Motor Car	7,000
Returns Inwards	400

The Closing Stock was valued at Rs. 1,450

(Gross Loss Rs, 500; Net Loss Rs. 1,850; B/S Total Rs. 15,850)

22. From the following balances extracted from the books of Kuppuswamy, prepare, Final Accounts:

	Rs.		Rs.
Bills Payable	700	Salaries	570
Land and Buildings	4,000	Rates and Taxes	200
Stock, 1st Jan. 71	4,000	Ceneral Expenses	500
Capital	15,000	Interest paid	800
Plant and Machinery	6,600	Furniture and Fixtures	300
Bills Receivable	1,500	Cash at Bank ..	230
Purchases	13,000	Discounts ...	500
Sales	22,000	Creditors ...	6,000
Wages	3,500	Debtors ...	8,000

Closing Stock was Rs. 4,5000

(G. P. Rs. 6,000; N. P. Rs. 3,430; B/S Total Rs. 25,130)

23. Prepare Trading and Profit & Loss Account for the year ending 31-12-1972 and a Balance Sheet as on that date.

	Rs
Capital	6,000
Withdrawals (Drawings) ...	1,000
Sales	10,000
Loan on Mortgage (Cr.) ...	1,000
Machinery & Plant ...	1,500
Land and Buildings ...	2,000
Creditors	500
Wages	5,000
Debtors	3,500
Boxes, Labels, etc. ...	500
Rates and Taxes ...	40
Bills Receivable ...	300
Insurance	150
Carriage	10
Incidental Expenses ...	200
Stock 1st Jan. 1972 ...	2,000
Cash at Bank	1,250
Cash in hand	500
Commission Earned ...	450

(G.P. Rs. 2,990; N.P. Rs. 2,550; B/S Total Rs. 9,050).

Hints: (*a*) There are no Purchases during the period. Hence the item, Purchases, will not appear on the debit side of the Trading Account.

(*b*) There is no Closing Stock. Hence the item Closing Stock, will not appear on the credit side of the Trading Account.

(*c*) Boxes, Labels, etc.. are shown on the debit side of Profit & Loss Account. The assumption is that the packing is intended for safe despatch of goods sold.

24. From the following balances extracted from the books of Mohandoss, prepare final Accounts on March 31, 1972:

		Rs.
Capital	...	24,500
Drawings	...	2,000
General Expenses	...	3,500
Building	...	11,000
Machinery	...	9,340
Stock	...	16,200
Motive Power	...	2,240
Taxes and Insurance	..	1,315
Wages	...	7,200
Debtors	...	7,200
Creditors	..	2,500
Bad Debts	..	550
Loan (Cr.)	..	7,880
Sales	..	65,360
Purchases	.	47,000
Motor Car	...	2,000
Reserve Fund	...	900
Commission (Cr.)	...	2,320
Car Expenses	..	1,800
Bills Payable	...	3.850
Cash	...	160
Bank Overdraft	...	4,300
Discount	...	105

Closing Stock was Rs. 14,000.

(G.P. Rs. 6,720; N.P. Rs. 1,770; B/S Total Rs. 43,700)

CHAPTER XIV

FINAL ACCOUNTS—ADJUSTMENTS

The object of preparing the Final Accounts is to find out the true profit for the year under consideration. This requires that all items which are relevant to the current year are brought into the Account. For example, in the case of expenses, all expenses incurred for the current year, whether paid or unpaid must be shown in the Profit & Loss Account. The unpaid amount of a particular expense has to be brought into account. This is known as Adjustment.

The following are the common adjustments :

1. Stock at end.
2. Outstanding Expenses.
3. Prepaid Expenses.
4. Outstanding or Accrued Incomes.
5. Incomes received in advance.
6. Depreciation of Assets.
7. Bad Debts.
8. Provision for Bad and Doubtful Debts.
9. Provision for Discount on Debtors.
10. Provision for Discount on Creditors.
11. Interest on Capital.
12. Interest on Drawings.

We will consider how the above items are brought into account and what adjusting entries are required for the purpose.

(1) Stock at End

Adjusting entry

		Rs.	Rs.
Closing Stock A/c	Dr.	...	
To Trading A/c			...

Closing Stock A/c

	Rs.		Rs.
To Trading A/c	...	By Balance c/d	...
	...		...
To Balance b/d	...		

Trading A/c

			Rs.
		By Closing Stock A/c	...

Balance Sheet

		Assets	Rs.
		Closing Stock	...

(2) **Outstanding Expenses**

These represent expenses which have been incurred during the year but the payment in respect of which is yet to be made.

E. g., Salaries to staff for the month of December. Rs, 500 are yet to be paid on 31-12-1972.

Adjusting Entry

		Rs.	Rs.
Salaries A/c	Dr.	500	
To Salaries outstanding A/c.			500

Profit & Loss A/c

	Rs.	Rs.		
To Salaries A/c	...			
Add Outstanding	500	...		

Balance Sheet

Liabilities	Rs.		
Outstanding Expenses Salaries	500		

(3) Prepaid Expenses :

These are expenses which have been paid; but a part of the amount paid extends to the next year. The terms which are used to indicate such payments are 'Prepaid' and 'Unexpired.'

Eg., Insurance Premium of Rs. 1,200 a year was paid on Ist July

Since one year's premium has been paid on 1st July, the premium for 6 months, i.e.. half the amount relates to the current year and the other half relates to the next year. Hence half the amount paid, i.e , Rs. 600 must be treated as Prepaid and subtracted from the premium paid. The amount must be again shown on the Assets side of the Balance Sheet because it represents an amount recoverable by the business.

Adjusting Entry

		Rs.	Rs.
Prepaid Insurance A/c	Dr.	600	
To Insurance A/c			600

Profit & Loss A/c

	Rs.	Rs.	
To Insurance A/c	...		
Less Prepaid	600	...	

Balance Sheet

	Assets	Rs.
	Prepaid Insurance	600

(4) Outstanding or Accrued Incomes

These are incomes which have already been earned (i.e., the service has already been rendered) but the money has not actually been received.

E. g., Interest on Investments accrued Rs. 600

The Interest for the current year is due at the close of the year. The amount may be actually received in the next year. It represents an income which has become receivable or accrued.

Hence it is shown on the credit side of Profit & Loss A/c and on the Assets side of the Balance Sheet because it represents an amount receivable by the business.

Adjusting Entry

		Rs.	Rs.
Accrued Interest A/c	Dr.	600	
To Interest A/c			600

Profit & Loss A/c

	Rs.	Rs.
By Interest on Investments A/c...		
Add : Interest Accured	600	
		...

Balance Sheet

Assets	
Interest Accrued	600

(5) Incomes received in Advance

These are incomes received during the current year, but a part of the amount received relates to the next year. Such amount must be subtracted from the total amount received in the Profit & Loss A/c and shown on the Liabilities side of the Balance Sheet as it represents an amount which the business is obliged to return.

E.g., the concern has received Apprentice Premium for the three years of Rs. 3,000, the current year's income is only 1/3 of Rs. 3,000 i.e. Rs. 1,000. The balance of Rs. 2,000 represents a Liability.

Adjusting Entry

		Rs.	Rs.
Apprentice Premium A/c	Dr.	2,000	
To Apprentice Premium Received in Advance A/c			2,000

Profit & Loss A/c

	Rs.	Rs.
By Apprentice Premium A/c	3,000	
Less : Received in Advance	2,000	1,000

Balance Sheet

Liabilities	Rs.	Rs.
Apprentice Premium Received in advance		2,000

(6) Depreciation on Assets

Depreciation means diminution or fall in the value of an Asset due to its constant use. It may also arise on account of lapse of time or obsolescence. It is to be treated as a loss to the business. It is usually calculated at a certain percentage on the value of the Asset and the amount so obtained is first shown on the debit side of Profit & Loss Account. Then, it is deducted from the original value of the Asset in the Balance Sheet.

Eg., A concern has Furniture of the value Rs. 500. At the end of the year, it is depreciated by 10%.

Adjusting Entry

		Rs.	Rs.
Depreciation A/c	Dr.	50	
To Furniture A/c			50

Profit & Loss A/c

	Rs.
To Depreciation A/c Furniture	50

Balance Sheet

Assets	Rs.	R
Furniture	500	
Less Depreciation	50	450

(7) Bad Debts

Debts represent money to be recovered from debtors. If it is known that a certain debt owed by a certain debtor cannot be recovered, it is treated as a loss. The amount is shown on the debit side of the Profit & Loss A/c. Then, the amount standing against Sundry Debtors is reduced to that extent in the Balance Sheet.

E. g. The ledger balance in respect of Sundry Debtors of a trader shows Rs. 10,000. Of this Rs. 500 is estimated to be irrecoverable.

Adjusting Entry

		Rs.	Rs.
Bad Debts A/c	Dr.	500	
To Sundry Debtors A/c			500

Profit & Loss A/c

	Rs.	
To Bad Debts A/c	500	

Balance Seeet

Assets

	Rs.	Rs.
Sundry Debtors	10,000	
Less Bad Debts	500	9,500

(8) **Provision for Bad & Doubtful Debts**

Every business has a lot of dealings by way of credit transactions. This gives rise to a sizeable amount of Sundry Debtors or Book Debts. But it is seldom that cent per cent of these debts will be recovered. Hence it becomes necessary to bring down the balance of Debtors to its true position. The whole idea is that the balance Sheet may show Debtors at their actual realisable value. The usual practice is to calculate these Doubtful Debts at a certain percentage, ba on past experience on Debtors.

Eg., The Sundry Debtors of a trader on 31-12-1970 stood at Rs. 10,000 and 5% of this is estimated to be doubtful.

Adusting Entry

		Rs.	Rs.
Profit & Loss A/c	Dr.	500	
To Reserve for Dobutful Debts A/c			500

Reserve for Doubtful Debts A/c

	Rs.		Rs.
To Balance c/d	500	By Profit & Loss A/c	500
	500		500
		By Balance b/d	500

Profit & Loss A/c

	Rs.
To Reserve for Doubtful Debts A/c	500

Balance Sheet

Assets	Rs.	Rs.
Sundry Debtors	10,000	
Less Reserve for Doubtful Debts 5%	500	9,500

As shown above, the amount of Provision for Dobutful Debts is first debited to Profit & Loss A/c and then subtracted from Sundry Debtors in the Balance Sheet.

(9) Provision for Discount on Debtors

It must be remembered that Cash Discount is allowed to Debtors who make prompt payments. In the above adjustments the Doubtful Debts have been provided for. The Balance of Debtors represent debts due from sound parties. They may try to pay their dues on time and avail themselves of the Cash Discount permissible. Hence prudence dictates that discounts be anticipated and provided for. It is, therefore, the usual practice in business to provide for Discount on Debtors.

E. g., Suppose the above trader who had Sundry Debtors amounting to Rs. 10,000 estimates that, after a provision of 5% for Doubtful Debts, a provision for Discount at 2% is desirable. Then, on the sound debtors, i.e. Rs. 9,500 a provision of 2% is made as Reserve for Discounts on Debtors.

Adjusting Entry

		Rs.	Rs.
Profit & Loss A/c	Dr.	190	
To Reserve for Discounts on Debtors A/c			190

Reservse for Discount on Debtors A/c

	Rs.		Rs.
To Balance c/d	190	By Profit & Loss A/c	190
	190		190
		By Balance b/d	190

Profit & Loss A/c

	Rs.		
To Reserve for Discount on Debtors A/c	190		

Balance Sheet

	Assets	Rs.	Rs.
	Sundry Debtors	10,000	
	Less Reserve for Doubtful Debts	500	
		9,500	
	Less : Reserve for Discounts on Debtors	190	
		9,310	

As shown above the following steps are necessary :

(*a*) The amount to be provided as Reserve for Discounts is calculated on the amount of Debtors left after deducting the provision for Doubtful Debts.

(*b*) The Provision for Discount is Debited to P & L A/c.

(*c*) It is deducted from the balance of good Debtors.

(10) Provision for Discount on Creditors

Creditors represent the amount owed by the business to outside parties. Sound business houses make it their practice to settle accounts with creditors in good time to earn the good-will of the creditors and also the discount allowable by them. In

that case the liability in respect of Sundry Creditors should not be shown at the book figure. It should be brought down to the actual amount payable. Hence it is necessary to deduct the Provision for Discount on Creditors from Sundry Creditors in the Balance Sheet.

Eg., A trader had Sundry Creditors at Rs. 5,000 on 31-12-1970. It is desired to make a provision of 3% on this amount for Discounts.

Adjusting Entry

		Rs.	Rs.
Reserve for Discounts on Creditors A/c	Dr.	150	
To Profit & Loss A/c			150

Reserve for Discounts on Creditors A/c

	Rs.		Rs.
To Profit & Loss A/c	150	By Balance c/d	150
	150		150
To Balance b/d	150		

Profit & Loss A/c

			Rs.
		By Reserve for Discounts on Creditors A/c	150

Balance Sheet

Liabilities	Rs.	Rs.	
Sundry Creditors	5,000		
Less Reserve for Discounts 3%	150	4,850	

As shown above, the provision is credited to the Profit and Loss A/c and deducted from Sundry Creditors in the Balance Sheet.

(11) Interest on Capital

Often, interest at a normal rate is allowed on the Capital of the proprietor employed in the business. This is necessary in order to assess the efficiency of the business. Otherwise the profits would include the interest and would appear to be quite high. The interest so charged is a loss to the business and a gain to the proprietor. So it is debited to the Profit & Loss A/c and added to the Capital in the Balance Sheet.

Adjusting Entry

		Rs.	Rs.
Interest on Capital A/c	Dr.	...	
To Capital A/c.			...
Profit & Loss A/c	Dr.	...	
To Interest on Capital A/c			...

Interest on Capital A/c

	Rs.		Rs.
To Profit & Loss A/e	...	By Capital A/c	...
	...		...

Capital A/c

		By Balance b/d	...
		,, Interest on Capital A/c	...

Profit & Loss A/c

	Rs.		
To Interest on Capital A/c	...		

Balance Sheet

Liabilities	Rs.	Rs.	
Capital	...		
Add : Interest on Capital A/c	...		
		...	

(12) Interest on Drawings

Drawings are money withdrawn by the Proprietor from his Capital. Just as the business allows Interest on Capital, it charges Interest on Drawings. This is a gain to the business and a loss to the proprietor. So, it is credited to the Profit & Loss A/c and deducted from the Capital in the Balance Sheet.

Adjusting Entry

		Rs.	Rs.
Drawings A/c	Dr.	...	
To Interest on Drawings A/c			...
Interest on Drawings A/c	Dr.	...	
To Profit & Loss A/c			...

Interest on Drawing A/c

	Rs.		Rs.
To Drawings A/c	...	By Profit & Loss A/c	...
	...		...

Drawings A/c

	Rs.		Rs.
To Interest on Drawings A/c	...	By Balance b/d	...

Profit & Loss A/c

		By Interest on Drawings A/c	...

Balance Sheet

Liabilities	Rs.	Rs.	
Capital A/c	...		
Add : Interest on Capital	...		
Drawings &	...		
Less : Interest on Drawings	...		
		...	

CHAPTER XV

ADJUSTING ENTRIES AND FINAL ACCOUNTS

Reserve for Bad Debts and Discounts

Illustration-1

On 31-12-1974 the Sundry Debtors of a trader stood at Rs. 10,000. A provision of 5% on this amount was made as Reserve for Bad Debts. Show the entries in the Journal, the Ledger, the Profit & Loss A/c and the Balance Sheet relating to this provision.

Journal

		Rs.	Rs.
Profit & Loss A/c	Dr.	500	
To Reserve for Bad Debts A/c.			500
(Being the provision of 5% on debtors as Reserve for Bad Debts)			

Ledger

Reserve for Bad Debts Account

	Rs.		Rs.
1974		1974	
Dec. 31 To Balance c/d	500	Dec. 31 By Profit & Loss A/c	500
	500		500
		1975	
		Jan. 1 By Balance c/d	500

Profit & Loss A/c

To Reserve for Bad Debts A/c	500		

Balance Sheet

		Assets		
		S. Debtors	10,000	
		Less Reserve for Bad Debts	500	9,500

Illustration-2

On 31-12-1970 the Sundry Debtors of a trader stood at Rs. 10,000. Of this Rs. 500 was considered to be bad and so was required to be written off. It was further desired to maintain a provision of 5% as Reserve for Bad Debts. Show the entries in Journal, Ledger, Profit & Loss A/c and the Balance Sheet relating to the provision.

Journal

		Rs.	Rs.
Bad Debts A/c	Dr.	500	
To Sundry Debtors A/c			500
(Amount written off as Bad Debts)			
Profit & Loss a/c	Dr.	475	
To Reserve for Bad Debts A/c			475
(Provision for Bad Debts at 5%)			

Ledger

Bad Debts A/c

	Rs.		Rs.
To Sundry Debtors A/c...	500	31-12-1970 By P & L A/c ...	500

Reserve for Bad Debts A/c

	Rs.		Rs.
31-12-1970 To Balance c/d	475	31-12-1970 By P & L A/c	475
	475		475
		1-1-1971 By Balance b/d	475

Profit & Loss A/c

	Rs.		
To Bad Debts A/c	500		
„ Reserve for Bad Debts A/c —	475		

Balance Sheet

	Rs.
Sundry Debtors	10,000
Less Bad Debts	500
	9,500
Less Reserve Bad Debts	475
	9,025

Illustration-3

On 31-12-1970 the Sundry Debtors of a trader stood at Rs. 10,300. Of this, it was found that Rs. 300 could not be recovered and it was decided to write off this amount. A provision of 5% for Bad Debts and of 3% for Discounts were desired to be made. Show how these decisions would be effected through the Journal and the Ledger.

How would the P & L A/c and the Balance Sheet appear?

Journal

		Rs.	Rs.
Bad Debts A/c	Dr.	300	
To Sundry Debtors A/c			300
(Amount written off as Bad Debts)			
Profit & Loss A/c	Dr.	500	
To Res. for Bad Debts A/c			500
(Provision for Bad Debts at 5%)			
Profit & Loss A/c	Dr.	285	
To Reserve for Discounts on Debtors A/c			285
(Provision for Discount on Debtors)			

Work Note : (1) Reserve for Bad Debts is to be ascertained on the balance of debtors after deducting the Bad Debts.

i.e., Rs. 10,300—300 = Rs. 10,000
5% on Rs. 10,000 = Rs. 500

(2) Reserve for Discount is to be ascertained on the balance of good debtors after deducting the provision for Bad Debts.

i.e., Rs. 10,000 – 500 = Rs. 9,500
3% on Rs. 9,500 = Rs. 285

Ledger

Bad Debts A/c

1970	Rs.	1970	Rs.
Dec 31 To Sundry Debtors	300	Dec 31 By Profit & Loss A/c	300
	300		300

Reserve for Bad Debts A/c

1970	Rs.	1970	Rs.
Dec 31 To Balance c/d	500	Dec 31 By Profit & Loss A/c	500
	500		500
		1970 Jan 1 By Balance b/d	500

Reserve for Discount on Debtors A/c

	Rs.		Rs
1970 Dec 31 To Balance c/d	285	1970 Dec 31 By Profit & Loss A/c	285
	285		285
		1971 Jan 1 By Balance b/d	285

Profit & Loss A/c for the year ending 31-12-70

		Rs.
To Bad Debts a/c	—	300
„ Reserve for Bad Debts a/c	—	500
„ Reserve for Discounts on Debtors A/c		285

Balance Sheet as on 31-12-1970

	Assets		Rs.
	Sundry Debtors	—	10,300
	less Bad Debts	—	300
			10,000
	less Reserve for B. D.		500
			9,500
	less Reserve for Discount	—	285
			9,215

Illustration-4

The following items are found in the Trial Balance of Mr. Kannan on 31st December, 1959.

		Rs.
Debtors	—	32,000
Bad Debts	—	600
Bad and Doubtful Debts Reserve (1st Jan. 1959)	—	1,400

You are required to provide for the Bad and Do btful debts at 5%. Give the necessary Journal entries and prepare the Bad Debts A/c and the Reserve for Bad & Doubtful Debts A/c. Show how the P & L A/c and the Balance Sheet will appear.

Explanation : (*a*) the Bad Debts Reserve which appears in the Trial Balance is the old reserve.

(*b*) Where there is an old reserve, the Bad debts must be transferred to the Bad Debts Reserve A/c.

(*c*) Then the entry for the new provision must be given

Journal Entries

		Rs.	Rs
Reserve for Bad Debts A/c	Dr.	600	
To Bad Debts A/c			600
(Entry to transfer Bad Debts to the Reserve A/c)			
Profit & Loss A/c	Dr.	800	
To Reserve for Bad Debts A/c			800
Entry to provide 5% Reserve for Bad debts			

Note : To find out the amount to be charged to the P & L A/c use the following method :

	Rs.	Rs.
New Reserve required : 5% on	32,000 =	1,600
ADD Bad Debts	—	600
		2,200
LESS Old Reserve	—	1,400
Amount chargeable to P & L A/c...		800

Ledger

Bad Debts A/c

	Rs.		Rs
1959		1959	
Dec 31 To Balance b/f	600	Dec 31 By Reserve for Bad Debts A/c	600
	600		600

Reserve for Bad Debts A/c

	Rs.		Rs.
1959		1959	
Dec 31 To Bad Debts A/c	600	Jan 1 By Balance b/d	1,400
„ Balance c/d	1,600	Dec 31 „ P & L A/c	800
	2,200		2,200
		1960	
		Jan 1 By Balance b/d	1,600

Profit & Loss A/c for the year ending 31-12-1959

	Rs.	Rs.
To Reserve for Bad Debts a/c:		
New Reserve ...	1,600	
Add Bad Debts ...	600	
	2,200	
Less Old Reserve...	1,400	
		800

Balance Sheet

Assets

	Rs.	Rs.
Debtors ...	32,000	
Less Reserve for Bad Debts...	1,600	
		30,400

Illustration-5

On 31st December, 1972 the books of Peter showed a (credit) balance of Rs. 700 in Reserve for Doubtful Debts A/c. The Bad Debts during the year 1973 amounted to Rs. 560 on 31st December, 1973. Sundry Debtors balance stood at Rs. 9,000. A Reserve of 5% on Debtors for Doubtful Debts was to

be maintained. Give the Journal entries and show the Reserve for Doubtful Debts A/c as on 31st December, 1973, the Profit & Loss A/c and the Balance Sheet.

Journal Entries

1973		Rs	Rs.
Dec 31.	Reserve for Doubtful Debts A/c Dr.	560	
	To Bad Debts A/c		560
	(Bad debts written off transferred to the Reserve A/c)		
	Profit & Loss A/c Dr.	310	
	To Reserve for Doubtful Debts A/c		310
	(Reserve of 5% created on Debtors)		

Calculation :	New Reserve on Rs. 9,000 at 5%	=450	
	Add Bad Debts	560	
		1,010	
	Less Old Reserve	700	
			310

Reserve for Doubtful Debts A/c

		Rs.			Rs.
1973			1973		
Dec 31	To Bad Debts A/c	560	Jan 1	By Balance b/d	700
	,, Balance c/d	450	Dec 31	,, P & L A/c	310
		1,010			1,010
			1974		
			Jan 1	By Balance b/d ...	450

Profit & Loss Account for the year ending 31-12-1973

	Rs.	Rs.	
To Reserve for Doubtful Debts :			
New Reserve	450		
Add Bad Debts	560		
	1,010		
	700		
Less Old Reserve		310	

Balance Sheet as on 31-12-1973

	Assets	Rs.	Rs.
	Debtors	9,000	
	Less Reserve for Doubtful Debts	450	
			8,550

Illustration-6

Reserve for Discounts on Debtors

On 1-1-1972, the Reserve for Discounts on Debtors A/c showed a (credit) Balance of Rs. 250. The discounts actually allowed during the year 1972 amounted to Rs. 180. The debtors on 31-12-1973 amounted to Rs. 6,000. A Reserve for Discounts at 5% on debtors was maintained. Show the entries in the *Journal, Ledger, Profit & Loss A/c and Balance Sheet.*

Journal

			Rs.	Rs.
1972				
Dec 31	Reserve for Discounts A/c	Dr.	180	
	To Discounts A/c			180
	(The transfer of discounts allowed to the Reserve for Discounts A/c)			
	Profit & Loss A/c	Dr.	230	
	To Reserve for Discounts A/c			230
	(The creation of Reserve for Discounts at 5%)			

Ledger

Reserve for Discounts A/c

		Rs.			Rs.
1972			1972		
Dec 31	To Discounts A/c	180	Jan 1	By Balance b/d	250
	,, Balance c/d	300	Dec 31	,, P&L A/c	230
		480			480
			1973		
			Jan 1	By Balance b/d	300

Profit & Loss A/c

	Rs.	Rs.	
To Reserve for Discounts A/c			
New Reserve	300		
Add Discounts	180		
	480		
Less Old Reserve	250		
		230	

Balance Sheet

	Assets	Rs.	Rs.
	Sundry Debtors	6,000	
	Less Reserve for Discounts	300	
			5,700

Illustration-7

The Trial Balance of a trader as on 31st December, 1973 shows the balance of Sundry Creditors at Rs. 8,000. He desires to make a provision for Discounts on Creditors at 3%.Show the entries in the Journal, Ledger, Porfit & Loss A/c and the Balance Sheet.

Journal

		Rs.	Rs.
1973			
Dec 31	Reserve for Discounts on Creditors A/c	240	
	To Profit & Loss A/c		240
	(Creation of Reserve for Discount at 3% on Creditors).		

Ledger

Reserve for Discounts on Creditors A/c

1973		Rs.	1973		Rs.
Dec 31	To P & L A/c	240	Dec 31	By Balance c/d	240
		240			240
1974					
Jan 1	To Balance b/d	240			

Profit & Loss Account

	Rs.
By Reserve for Discounts A/c	240

Balance Sheet as on 31-12-1973

Liabilities	Rs.	Rs.	
Sundry Creditors ...	8,000		
Less Reserve for Discounts on Creditors	240		
		7,760	

A Note on the Treatment of Reserves

1. Three types of adjustments are possible on Sundry Debtors or Book Debts. They are :

(*a*) Writing off of Bad Debts.

(*b*) Providing Reserve for Bad Debts.

(*c*) Providing Reserve for Discounts.

When all these three adjustments are required in the same problem this is the order in which the adjustments are to be effected.

2. Before ascertaining the amount of Reserve for Bad Debts, the Bad Debts must be deducted from Debtors.

3. Before ascertaining the amount of Reserve for Discounts, the Reserve for Bad Debts must be deducted from Sundry Debtors.

4. In the Balance Sheet, all these three items must be subtracted from Sundry Debtors.

CHART RELATING TO ADJUSTMENTS

Type of Adjustment	*Adjusting Journal Entry*	*How dealt with in*	
		Trading or Profit & Loss Account	*Balance Sheet*
(1) Closing Stock ...	Stock A/c Dr. To Trading A/c	Shown on the credit side of Trading A/c	Shown on the Assets Side.
(2) Outstanding Expenses : Rent Salaries.	Particular Expenses A/c Dr. To Outstanding Expenses A/c	(*a*) If the outstanding expense is with reference to an item chargeable to Trading A/c, add the outstanding expenses to the relevant Account in Trading A/c (*b*) If it is with reference to an item chargeable to P & L A/c add the outstanding expense to the relevant A/c in the P & L A/c	Shown on the Liabilities side.

(3) Prepaid Expenses also known as Unexpired or Over paid	Prepaid Expenses A/c Dr. To the particular expense A/c	Deduct from the account relating to an expense on the debit side of Trading A/c or P & L A/c	Shown on the Assets side.
(4) Outstanding Income or Accrued Income	Outstanding Income A/c Dr. To the Particular Income A/c	Add to the account relating to the income on the credit side of the P & L A/c	—do—
(5) Income Received in Advance	The Particular Income A/c Dr. To Income Received in Advance A/c	The amount received in advance is deducted from the total amount received under that head and shown on the credit side of P & L A/c	Shown on the Liabilities side.
(6) Depreciation on Assets	Depreciation A/c Dr. To the Asset A/c	The amount ascertained as Depreciation is shown on the debit side of the P & L A/c	Shown as a deduction from the value of the concerned Asset.
(7) Bad Debts	Bad Debts A/c Dr. To Sundry Debtors A/c	The amount of Bad Debts is shown on the debit side of the P & L A/c	The amount is deducted from Sundry Debtors

CHART RELATING TO ADJUSTMENTS—(*contd*).

Type of Adjustment	*Adjusting Journal Entry*	*How dealt with in*	
		Trading or Profit and Loss Account	*Balance Sheet*
(8) Reserve for Bad and Doubtful Debts	Profit & Loss A/c Dr. To Reserve for Bad and Doubtful Debts A/c	(*a*) The amount of Reserve is shown on the debit side of P & L A c **(*b*) In case the Trial Balance shows old Reserve for Bad Debts and Bad Debts, the difference (between New Reserve and Bad Debts) and the old Reserve is shown on the debit side of P & L A/c.**	The amount of **new Reserve alone is deducted from the Sundry Debtors and the balance shown on the Asset side.**

		(*c*) In case the Old Reserve is more, the difference between Old Reserve and the total of New Reserve and Bad Debts is shown on the credit side.	
(9) Reserve for Discounts on Debtors	Profit & Loss A/c Dr. To Reserve for Discounts A/c	The amount of Reserve is shown on the debit side of P & L A/c	The amount of Reserve is subtracted from the Balance of good Debtors.
(10) Reserve for Discounts on Creditors	Reserve for Discounts A/c Dr. To P & L A/c	The amount of Reserve is shown on the credit side of P & L A/c	The amount of Reserve is deducted from Sundry Creditors.
(11) Interest on Capital	Interest on Capital A/c Dr. To Capital A/c	Shown on the debit side of Profit & Loss A/c	Added to Capital on Liabilities side.
(12) Interest on Drawings	Capital A/c Dr. To Interest on Drawings A/c	Shown on the credit side of P & L A/c	Deducted from Capital (Along with Drawings.)

Illustration-1

The following are the balances extracted from the books of Sri Balasubramanian as on 31-3-1961 :

	Rs.		Rs.
Capital	...15,000	Loans Borrowed ...	20,000
Drawings	... 4,800	Stock (1-4-1960) ...	7,500
Machinery	...20,000	Purchases ...	60,000
Furniture	... 1,500	Sales ...	90,000
Sundry Debtors	...20,000	Office Rent ...	1,100
Sundry Creditors	...13,000	Insurance ...	240
Interest (Dr.)	... 1,250	Discount Allowed ...	1,000
Wages	...10,000	Discount Earned ...	500
Salaries	... 7,500	General Expenses ...	1,200
Carriage Inwards ...	500	Cash on hand ...	150
Purchase Returns...	1,000	Bank Balance ...	1,260
Sales Returns	... 1,500		

Adjustments :

	Rs.
(1) Stock on 31-3-1961	10,000
(2) Rent outstanding	100
(3) Salaries outstanding	900
(4) Insurance prepaid	40
(5) Interest on loans outstanding ...	250

(6) Provide Depreciation 10% on Machinery, 6% on Furniture.

Pass necessary adjusting entries and prepare Trading and Profit & Loss Account for the year ended 31-3-1961 and a Balance Sheet as at the closing date.

Adjusting Entries

		Rs.	Rs.
(1) Stock A/c	Dr.	10,000	
To Trading A/c			10,000
(Being the stock at the close)			
(2) Rent A/c	Dr.	100	
To Outstanding Expenses A/c			100
(Being outstanding Rent)			
(3) Salaries A/c	Dr.	900	
To Outstanding Expenses A/c			900
(Being outstanding Salaries)			
(4) Prepaid Expenses A/c	Dr.	40	
To Insurance A/c			40
(Being prepaid Insurance)			
(5) Interest on Loan A/c	Dr.	250	
To Outstanding Expenses A/c			250
(Being outstanding Interest on Loan)			
(6) Depreciation A/c	Dr.	2,090	
To Machinery A/c			2,000
„ Furniture A/c			90
(Being provision of Depreciation on above Assets)			

Trading and Pront & Loss Account for the year ended 31-3-1961

Dr. | Cr.

	Rs.	Rs.		Rs.	Rs.
To Opening Stock ...		7,500	By Sales ...	90.000	
,, Purchases ...	60,000		Less Returns ...	1,500	
Less Returns ...	1,000				88,500
		59,000	,, Closing Stock ...		10,000
,, Wages ...		10,000			
,, Carriage Inwards ...		500			
,, Gross Profit Transferred to Profit and Loss A/c ...		21,500			
		98,500			98,500

	Rs.	Rs.		Rs.	Rs.
To Salaries ...	7,500		By Gross Profit b/d		21,500
Add outstanding ...	900	8,400	,, Discounts Earned ...		500
,, Rent ...	1,100				
Add outstanding ...	100	1,200			
,, Interest ...	1,250				
Add outstanding ...	250	1,500			
,, Insurance ...	240				
Less Prepaid ...	40	200			
,, Discounts Allowed ...		1,000			
,, General Expenses ...		1,200			
,, Depreciation :					
Machinery ...	2,000				
Furniture ...	90	2,090			
,, Net Profit (Transferred to Capital A/c) ...		6,410			
		22,000			22,000

Balance Sheet as on 31st March 1961

Liabilities		Rs.	Rs.	Assets		Rs.	Rs.
Sundry Creditors	...		13,000	Cash in hand	...		150
Loans	...		20,000	Cash at Bank	...		1,260
Capital	...	15,000		Sundry Debtors	...		20,000
Add Net Profit	...	6,410		Closing Stock	...		10,000
		21,410		Machinery	...	20,000	
Less Drawings	..	4,800	16,610	*Less* : Depreciation	...	2,000	18,000
Outstanding Expenses :				Furniture	...	1 500	
Salaries	...	9,00		*Less* : Depreciation	...	90	1,410
Rent	...	100					
Interest on Loan	...	250	1,250	Prepaid Insurance	...		40
			50, 860				50,860

Illustration-2

From the following particulars taken from Rameshan's Books prepare Trading and Profit & Loss Account for the year ended 31st December, 1965 & the Balance Sheet as on that date.

	Rs.		Rs.
Land and Buildings	47,000	Plant	35,000
Cash ...	2,300	Patents ...	12,000
Debtors ...	3,800	Furniture ...	4,700
Sales ...	94,500	Travelling Expenses	8,500
Bill Receivable ...	1,200	Salesman's Commission	1,300
Purchases ...	16,800	Carriage Inwards...	400
Wages ...	23,900	Packing ...	600
Creditors ...	5,200	Advertising ...	1,800
Salaries ...	16,500	Bank ...	5,600
Sales Returns ...	400	Loans ...	42,400
Loss By Fire ...	500	Trucks ...	18,500
Discounts Received	200	Capital ...	65,000
Opening Stock ...	6,500		

Provide for 15% Depreciation on Plant. Write off Patents by a third. On amount of Rs. 850 was due to workers. An over payment of Rs. 200 was made to the salesman towards commission. The Insurance Company agreed to meet the losses in fire totally. Closing stock was valued at Rs. 3,700.

Trading Account for the year ending 31st December, 1965

Dr. *Cr.*

	Rs.	Rs.		Rs.	Rs.
To Opening Stock		6 500	By Sales ...	94,500	
,, Purchases		16,800	*Less*: Returns	400	94,100
,, Wages	23,900		,, Closing Stock		3,700
Add: Outstanding ...	850	24,750			
,, Carriage Inwards ...		400			
,, Gross Profit c/d ...		49,350			
		97 800			97,800

Profit & Loss Account

for the year ending 31st December, 1965

	Rs.	Rs.			Rs.
To Salaries		16,500	By Gross Profit b/d		49,350
,, Travelling Expenses		8,500	,, Discount Received		200
,, Salesman Commission	1,300				
Less : Prepaid	200				
		1,100			
,, Packing		600			
,, Advertising		1,800			
,, Depreciation on Plant		5,250			
,, Patents Written off		4,000			
,, Loss by fire	500				
Less : Claim accepted by Insurance Company	500				
,, Net Profit transferred to Capital A/c ...		11,800			
		49,550			49,550

Balance Sheet as on 31st December, 1965.

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Creditors ...		5,200	Cash ...		2,300
Loans ...		42,400	Bank ...		5,600
			Bills Receivable ...		1,200
Outstanding Wages ...		850	Debtors ...		3,800
Capital : ...			Insurance Co., (for loss by fire) ...		500
			Prepaid Salesmen's Commission ...		200
Opening Balance ...	65,000		Stocks ...		3,700
Add : Net Profit ...	11,000		Patents ...	12,000	
		76,800	*Less* : 1/3 written off ...	4,000	8,000
			Trucks ...		18,500
			Furniture ...		4,700
			Plant ...	35,000	
			Less : Depreciation at 15% ...	5,250	29,750
			Land and Buildings ...		47,000
		1,25,250			1,25,250

Illustrstion 3

The following are the balances extracted from the Books of Sri Vinayagam as on 31st March, 1964 :

	Rs.		Rs.
Sri Vinayagam's Capital ...	12,500	Interest Paid ...	250
Sri Vinayagam's Drawings ...	6,200	Rents and Taxes ...	5,000
Furniture and Fittings ...	1,750	Returns Outwards ...	5,000
Typewriter ...	1,200	Returns Inwards ...	10,000
Purchases ...	1,80,000	Carriage Outwards ...	8,000
Sales ...	2,35,000	Salaries ...	11,000
Lorry Hire on Purchases ...	12,000	Advertisement ...	1,200
Eravelling Expenses ...	900	Cycle ...	200
Sundry Creditors ...	10,000	Opening Stock ...	21,500
Insurance ...	500	Sundry Debtors ...	12,000
General Expenses ...	600	Reserve for Doubtful Debts ...	400
Postage & Telegram ...	150	Commission Earned ...	9,000
Bad Debts ...	500	Discount Allowed ...	5,000
		Cash on hand ...	450
		Overdraft with Bankers ...	6,500

The following adjustments are to be made :

(1) Stock on 31st March, 1964 Rs. 17,500

(2) Provide the following :

Outstandings : Interest—Rs. 250, Salaries—Rs. 1,000, Rent—Rs. 500, Audit fees—Rs. 500.

Prepaid Expenses : Insurance Rs. 125, Advertisement Rs. 200.

(3) Maintain Reserve for Doubtful Debts at 5% on Sundry Debtors.

(4) Provide Depreciation : Furniture and Fittings—10%, Cycle—15%, Typewriter—15%.

Prepare Trading and Profit & Loss Account for the year ended 31st March, 1964 and a Balance Sheet as on that date.

Adjusting Entries :

			Rs.	Rs.
(1)	Stock A/c	Dr.	17,500	
	To Trading A/c			17,500
	(Being Stock at Close)			
(2)	Interest A/c	Dr.	250	
	Salaries A/c	Dr.	1,000	
	Rent A/c	Dr.	500	
	Audit Fees A/c	Dr.	500	
	To Outstanding Expenses A/c			2,250
	(Being Outstanding Expenses)			
(3)	Prepaid Expenses A/c	Dr.	325	
	To Insurance A/c			125
	,, Advertisement A/c			200
	(Being Prepaid Expenses)			
(4)	Profit & Loss A/c	Dr.	700	
	To Reserve for Doubtful Debts A/c			700
	(Being Provision for Doubtful Debts)			
(5)	Depreciation A/c	Dr.	385	
	To Furniture & Fittings A/c			175
	,, Cycle A/c			30
	,, Typewriter A/c			180
	(Being Provision for Depreciation on above assets.)			

Sri Vinayagam's Trading Account for the year ending 31st March, 1964.

Dr.	Rs.	Rs.		Rs.	Rs. Cr.
To Opening Stock...		21,500	By Sales ...	2,35,000	
			Less: Returns Inwards...	10,000	
,, Purchases...	1,80,000				2,25,000
Less: Returns Outwards	5,000		,, Closing Stock ...		17,500
		1,75,000			
,, Lorry Hire on Purchase		12,000			
,, Gross Profit (Transferred to P & L A/c)		34,000			
		2,42,500			2,42,500

Profit & Loss A/c for the the year ending 31st March, 1964.

Dr.		Rs.	Rs.			Rs. Cr.
To Salaries	...	11,000		By Gross Profit (Transferred from Trading A/c)	...	34,000
Add : Outstanding	...	1,000	12,000	,, Commission Earned	...	9,000
,, Rent and Taxes	...	5,000				
Add : Outstanding	...	500	5,500			
,, Interest	...	250				
Add : Outstanding	...	250	500			
,, Insurance	...	500				
Less : Prepaid	...	125	375			
,, Advertisement	...	1,200				
Less : Prepaid	...	200	1,000			
,, Outstanding Audit fees	...		500			

,, Carriage Outwards ...		8,000			
,, Travelling Expenses ...		900			
,, General Expenses ...		600			
,, Postage & Telegram ...		150			
,, Discount Allowed ...		5,000			
,, Reserve for Bad Debts :					
New Reserve ...	600				
Add : Bad Debts ...	500				
	1,100				
Less : Old Reserve ...	400	700			
,, Depreciation :					
Furniture ...	175				
Typewriter ...	180				
Cycle ...	30	385			
,, Net Profit ... (Transferred to Capital A/c)		7,390			
		43,000			43,000

Balance Sheet as on 31st March, 1964.

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Sundry Creditors		10,000	Cash on Hand		450
Overdraft with Banker ...		6,500	Sundry Debtors	12,000	
			Less: Reserve for Bad Debtors	600	11,400
Capital	12,500		Stock		17,500
Add : Net Profit	7,390		Furniture and Fittings ...	1,750	
	19,890		*Less* : Depreciation ...	175	1,575
Less : Drawings	6,200	13,690	Typewriter	1,200	
Outstanding Liability for Expenses :			*Less* : Depreciation ...	180	1,020
Salaries	1,000		Cycles	200	
			Less : Depreciation ...	30	170
Interest	250		Prepaid Expenses :		
Rent	500		Insurance	125	
Audit Fees	500	2,250	Advertisement	200	325
Total		32,440	Total		32,440

Illustration 4

The following balances are extracted from the Books of Mr. Paul as on 30th June, 1963 :

	Rs.		Rs.
Paul's Capital ...	5,000	Loans Borrowed ...	25,000
Paul's Drawings ...	3.600	Sundry Debtors ...	10,000
Buildings	15,000	Deposits (Dr.) ...	1,000
Plant and Machinery	15,000	Purchases	2,20,000
Furniture and Fittings	4,000	Opening Stock ...	15,000
Lorry	10,000	Sales	3,00,000
Creditor for Trade ...	5,000	Carriage Inwards ...	2,000
Freight and Duty on Purchases ...	25,000	Insurance	500
Carriage Outwards ...	1,000	Commission on Sales	1,000
Salaries	6,600	Reserve for Bad Debts	300
Wages	20,000	Reserve for Discount on Debtors ...	150
Lighting Charges ...	1,000	Discount Allowed to Customers ...	1,500
Taxes and Licenses	1,200	Cash on hand ...	150
Postage and Telegrams	150	Overdraft with Bankers	24,750
General Charges ...	700		
Interest Paid ...	2,250		
Lorry Maintenance...	3,500		

Adjustments

(1) Stock on hand 30 6-1963 : Rs. 20,000

(2) Provide the following :

(*a*) Salaries due Rs. 600
(*b*) Wages due Rs. 1,000
(*c*) Interest due on Loans Rs. 500, on Overdraft Rs. 250
(*d*) Lorry Maintenance due Rs. 500
(*e*) Insurance prepaid Rs. 125

(3) Maintain the Reserve for Doubtful Debts at 5% and Reserve for Discounts at 2% on Debtors.

(4) Provide Depreciation on :
Buildings -5%, Plant and Machinery—10%, Lorry—25%.

Prepare Trading and Profit & Loss Account for the year ended 30th Jnue, 1963 and a Balance Sheet as on that date.

Trading Account for the year ended 30th June 1963.

Dr. *Cr.*

		Rs.		Rs
To Opening Stock ...		15,000	By Sales ...	3,00,000
" Purchases		2,20,000	" Closing Stock ...	20,000
" Freight and Duty on Purchases ...		25,000		
" Wages ...	20,000			
Add : Outstanding ...	1,000	21,000		
" Carriage Inwards ...		2,000		
" Gross ... Profit (Transferred to P & L A/c)		37,000		
		3,20,000		3,20,000

Profit and Loss A/c for the year ended 30th June 1963

	Rs.	Rs.		Rs.
To Salaries ...	6,600		By Gross Profit (Tranferred from Trading A/c) ...	37,000
Add : Outstanding ...	600	7,200		
,, Interest paid	2,250			
Add : Outstanding ...	500	2,750		
,, Interest Outstanding on Overdraft ...		250		
,, Lorry Maintenance ...	3,500			
Add : Outstanding ...	500	4,000		
,, Insurance ...	500			
Less : Prepaid ...	125	375		
,, Carriage Outwards ...		1,000		
,, Lighting Charges ...		1,000		
,, Taxes and Licences ...		1,200		
,, Postage and Telegrams ...		150		
,, General Charges ...		750		
,, Commission on Sales ...		1,000		
,, Discount on Customers ...		1,500		
		21,175		37,000

	Rs	Rs.	P.		Rs.	P.
To Reserve for Doubtful Debts :						
New Reserve	500					
Less : Old ...	300	200	00			
,, Reserve for Discount on Debtors :						
New Reserve ...	237·50					
Less Old ...	150·00	87	50			
,, Depreciation :						
Buildings ...	750					
Plant & Machinery ...	1,500					
Furniture and Fittings ...	400					
Lorry ...	2,500	5,150	00			
,, Net Profit Transferred to Capital A/c		10,387	50			
		37,000	00		37,000	00

Balance Sheet as on 30th June, 1963.

Liabilities

	Rs. P.		Rs. P.	
Creditors for Trade ...			5,000	00
Loans borrowed ...			25,000	00
Overdraft			24,750	00
Capital	5,000	00		
Add: Net Profit ...	10,387	00		
	15,387	50		
Less : Drawings ...	3,600	00	11,787	50
Outstanding Liabilities for Expenses :				
Salaries ...	600	00		
Wages ...	1,000	00		
Lorry Maintenance ...	500	00		
Interest on Loans ...	500	00		
Interest on Overdraft ...	250	00	2,850	00
			69,387	50

Assets

	Rs.	P.	Rs.	P.
Cash on hand			150	00
Deposits ...			1,000	00
Sundry Debtors ...	10,000	00		
Less: Reserve for Bad Debts ...	500	00		
	9,500	00		
Less: Reserve for Discounts ...	237	50	9,262	50
Closing Stock			20,000	00
Lorry	10,000	00		
Less: Depreciation ...	2,500	00	7,500	00
Furniture	4,000	00		
Less: Depreciation ...	400	00	3,600	00
Plant and Machinery ...	15,000	00		
Less: Depreciation ...	1,500	00	13,500	00
Buildings	15,000	00		
Less: Depreciation ...	750	00	14,250	00
Prepaid Insurance ...			125	00
			69,387	50

Illustration 5

From the following particulars extracted from the book of Mr. Alavayan prepare the Trading & Profit and Loss Account for the year ended March 31, 1966 and Balance Sheet as on that date :

	Rs.		Rs.
Capital	50,000	Land ...	13,500
Cash at Bank ...	2,000	Sales	1,25,000
Cash on hand ...	500	Carriage Inwards ...	800
Buildings	30,000	Gas	2,200
Wages	15,000	Sundry Creditors ...	12,200
Salaries	10,000	Sundry Debtors ...	15,000
Rent & Rates ...	1,800	Purchase Returns ...	2,000
Printing & Stationery	1,200	Sales Returns ...	1,500
Stock on 1-4-65 ...	8,000	Bills Receivable ...	4,000
Purchases ...	70,000	Discount Received ...	400
Insurance ...	800	Discount allowed ...	500
Machinery ...	12,000	Furniture ...	3,000
Drawings ...	6,000	Travelling Expenses ...	1,800
		Loans	1,000

Provide for the following :

(*a*) Prepaid Insurance Rs. 200.

(*b*) Depreciation on (i) Machinery 10%, (ii) Furniture 5%.

(*c*) Interest on Capital at 3%.

(*d*) Outstanding Wages Rs. 800, Outstanding Salaries Rs. 600.

(*e*) Write off Bad Debts Rs. 1,000 and create a Reserve for Bad Debts at 3% on Debtors.

(*f*) Value of Closing Stock Rs. 10,000.

Trading Account for the year ended 31st March, 1966

Dr. | *Cr.*

	Rs.	Rs.		Rs	Rs.
To Opening Stock		8,000	By Sales...	1,25,000	
			Less : Returns ...	1,500	
,, Purchases	70,000				1,23,500
Less : Returns ...	2,000	63,000	,, Closing Stock ...		10,000
,, Wages ...	15,000				
Add : Outstanding ...	800	15,800			
,, Carriage Inwards ...		800			
,, Gas ...		2,200			
,, Gross Profit (transferred to P&L A/c)		38,700			
		1,33,500			1,33,500

Profit and Loss Account for the year ended 31st March, 1966.

	Rs.	Rs.		Rs.
To Salaries ...	10,000		By Gross Profit b/d ...	38,700
Add : Outstanding ...	600	10,600	,, Discount Received ...	400
,, Rent and Rates ...		1,800		
,, Printing & Stationery ...		1,200		
,, Insurance ...	800			
Less : Prepaid ...	200	600		
,, Discount Allowed ...		500		
,, Travelling Expenses ...		1,800		
,, Depreciation : Machinery...	1,200			
Furniture ...	150	1,350		
,, Interest on Capital ...		1,500		
,, Bad Debts ...		1,000		
,, Reserve for Bad Debts ...		420		
,, Net Profit (transferred to Capital A/c ...		18,330		
		39,100		39,100

Balance Sheet as on 31st March, 1966

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Sundry Creditors		12,200	Cash on hand		500
Loans		10,000	Cash at Bank		2,000
Outstanding Liabilities:			Bills Receivable		4,000
Wages	800		Sundry Debtors	15,000	
Salaries	600	1,400	*Less* : Bad Debts ...	1,000	
				14,000	
			Less : Reserve for Bad Debts	420	13,580
Alavayan's Capital:			Prepaid Insurance		200
Opening Balance ...	50,000		Stock		10,000
Add : Interest on Capital ...	1,500		Furniture	3,000	
			Less : Depreciation at 5% ...	150	2,850
Net Profit ...	18,330		Building		30,000
	69,830		Machinery	12,000	
Less : Drawings ...	6,000	3,830	*Less* : Depreciation at 10% ...	1,200	10,800
			Land		13,500
		87,430			87,430

Illustration-6

From the following particulars extracted from Nadarajan's books, prepare the Trading and Profit & Loss Account for the year ended December 31, 1964 and the Balance Sheet on that date.

	Rs.		Rs.
Cash	2,000	Travelling Expenses ...	1,600
Stock (1 Jan. 1964) ...	8,320	Sales Returns ...	200
Salaries	12,600	Discounts Received ...	300
Advertising ...	1,200	Bad Debts	100
Creditors	7,500	Wages	10,200
Bills Receivable ...	600	Land	13,200
Bank Overdraft ...	3,700	Plant	18,500
Sales	58,000	Furniture	2,500
Purchases Returns ...	400	Lorries	8,000
Packing	500	Debtors	5,800
Purchases	15,200	Loans	10,000
		Capital	20,620

Provide for Depreciation at 20% on Plant and 2% on Land. Create a Bad Debts Reserve of 3% on Debtors. An amount of Rs. 300 was outstanding under a new Insurance Policy. Travelling Expenses were overdrawn by the employees to the extent of Rs. 200. Closing Stock was valued at Rs. 7,500.

Trading Account for the year ending 31st December, 1964.

Dr. *Cr.*

	Rs.	Rs.		Rs.	Rs.
To Opening Stock ...		8,320	By Sales	58,000	
,, Purchases	15,200		*Less* : Returns ...	200	57,800
Less : Returns ...	400	14,800			
,, Wages ...		10,200	,, Closing Stock		7,500
,, Gross Profit (transferred to P & L A/c)		31,980			
		65,300			65,300

Profit and Loss Account
for the year ended 31st December, 1964

	Rs.	Rs.			Rs.
To Salaries ...		12,600	By Gross Profit b/d		31,980
,, Advertising		1,200	,, Discounts Received		
,, Packing ...		500			300
,, Travelling Expenses	1,600				
Less : Prepaid	200	1,400			
,, Bad Debts...		100			
,, Depreciation					
Plant ...	3,700				
Land ...	264	3,964			
,, Insurance Premium outstanding ...		300			
,, Bad Debts Reserve ...		174			
,, Net Profit (Transferred to capital A/c)		12,042			
		32,280			32,280

Balance Sheet as on 31st December, 1964

Liabilities			*Assets*		
	Rs.	Rs.		Rs.	Rs.
Creditors ...		7,500	Cash ...		2,000
Bank Over-draft ...		3,700	Bills Receivable ...		600
Loans ...		10,000	Debtors ...	5,800	
Outstanding Insurance		300	*Less* : Bad Debts Reserve ...	174	5,626
Nadarajan's Capital : Opening Balance	20,620		Prepaid Travelling Expenses ...		200
			Stock ...		7,500
Add : Net Profit	12,042	32,662	Lorries ...		8,000
			Furniture ...		2,50
			Plant ...	18,500	
			Less : Depreciation at 20%	3,700	14,800
			Land ...	13,200	
			Less : Depreciation at 2%	264	12,936
		54,162			54,162

Illustration 7

The following is the Trial Balance taken from the Books of Sri Uma Shankar as on 31-12-1962 :

		Rs.			Rs.
Capital	...	20,000	Sales	...	2,00,000
Drawings A/c	...	7,500	Returns Outwards	...	5,000
Furnitures&Fittings		1,000	Returns Inwards	...	20,000
Typewriter	...	750	Salaries...	...	8,500
Cycle	...	200	Wages	...	15,000
Motor Van	...	16,500	Rent	...	3,300
Sundry Debtors	...	20,000	Discounts Earned	...	700
Sundry Creditors	...	10,000	Discounts Allowed	...	500
Loans Borrowed at			Commission Allowed		1,000
10%	...	6,000	Postage and Telegram		180
Purchases	...	1,20,000	Carriage Inwards	...	3,000
Opening Stock	...	20,000	Carriage Outwards	...	1,000
Entertainments	...	600	Reserve for Bad and		
Miscellaneous	...	300	Doubtful Debts	...	330
Interest (paid upto			Cash on hand	...	300
30-10-62)	...	450	Cash with Bankers	...	1,700
Bad Debts	...	250			

The following adjustments are necessary :

(1) Stock as on 31-12-62 Rs. 8,000.

(2) Provide for the following : Salaries due Rs. 500, Rent due Rs. 300, Wages due Rs. 1,000, and Interest due for two months.

(3) Maintain a Reserve for Bad and Doubtful Debts at 5% on Debtors.

(4) Provide Depreciation on :
Furnitures & Fittings 10%, Typewriter 15%, Cycle 15%, Motor Van 20%

(5) Interest at 6% to be charged on Capital but not on Drawings.

Prepare Trading and Profit & Loss Account for the year ending 31-12-1962 and a Balance Sheet as on that date.

Trading and Profit & Loss Account of Sri Uma Shankar
for the year ending 31st December, 1962

Dr. | **Cr.**

	Rs.	Rs.		Rs.	Rs.
To Opening Stock ...		20,000	By Sales ...	2,00,000	
,, Purchases ...	1,20,000		*Less* : Returns ...	20,000	
Less : Returns ...	5,000				1,80,000
		1,15,000	Closing Stock ...		8,000
To Wages ...	15,000				
Add : Outstanding ...	1,000				
		16,000			
,, Carriage Inwards ...		3,000			
,, Gross Profit (transferred to P & L A/c)		34,000			
		1,88,000			1,88,000

	Rs.	P.	Rs.	P.		Rs.	P.
To Salaries ...	8,500	00			By Gross Profit (transferred from Trading A/c.)	34,000	00
Add : Outstanding ...	500	00	9,000	00	,, Discounts Earned ...	700	00
To Rent ...	3,300	00					
Add : Outstanding ...	300	00	3,600	00			
To Interest ...	450	00					
Add : Outstanding ...	100	00	550	00			
,, Discounts Allowed ...			500	00			
,, Commission Allowed ...			1,000	00			
,, Posts & Telegrams ...			180	00			
,, Carriage Outwards ...			1,000	00			
,, Entertainments ...			600	00			
,, Miscellaneous Expenses ...			300	00			
,, Interest on Capital ...			1,200	00			

,, Reserve for Bad Debts :								
New Reserve	1,000	00						
Add: Bad Debts	250	00						
	1,250	00						
Less : Old Reserve ...	330	00						
			920	00				
,, Depreciation :								
Furniture ...	100	00						
Typewriter	112	50						
Cycles ...	30	00						
Motor Van ...	3,300	00						
			3,542	50				
,, Net Profit (transferred to... Capital A/c)			12,307	50				
			34,700	00			34,700	00

Balance Sheet of Sri Uma Shankar as on 31-12-1962

Liabilities	Rs. P.	Rs. P.	*Assets*	Rs. P.	Rs. P.
Sundry Creditors ...		10,000 00	Cash on hand ...		300 00
Loan at 10% ...		6,000 00	Cash with Bankers ...		1,700 00
Capital A/c ...	20,000 00		Sundry Debtors ...	20,000 00	
Add : Net Profit ...	12,307 50		*Less* : R. B. D. ...	1,000 00	19,000 00
Interest on Capital ...	1,200 00		Closing Stock ...		8,000 00
	33,507 50		Furniture & Fittings —	1,000 00	
Less : Drawings ...	7,500 00	26,007 50	*Less* : Depreciation —	100 00	900 00
Outstanding Expenses :			Typewriter ...	750 00	
Salaries ...	500 00		*Less* : Depreciation ...	112 50	637 50
Rent ...	300 00		Cycle ... ... —	200 00	
Wages ...	1,000 00		*Less* : Depreciation —	30 00	170 00
Interest on Loan ...	100 00	1,900 00	Motor Van	16,500 00	
			Less : Depreciation —	3,300 00	13,200 00
		43,907 50			43,907 50

Typical Problems

Exercises with Adjustments on Outstandings and Prepayments.

Q. No, 1.

From the following list of balances prepare a Trial Balance, Trading Account and Profit & Loss Account and a Balance Sheet as on 31st March, 1959:

	Rs.		Rs.
Purchases ...	16,000	Repairs ...	300
Discount (Dr.) ...	1,300	Miscellaneous Expenses	55
Salary and Wages ...	8,500	Buildings ...	4,000
Sales	30,000	Machinery ...	1,500
Travelling Expenses	500	Horse and Carts ...	500
Carriage Inwards	275	Stock in Trade (1-4-1958) ...	5,900
Insurance ...	150	Capital ...	13,750
Commission ...	325	Sundry Debtors ...	3,250
Rent & Rates ...	500	Sundry Creditors ...	2,100
Cash on hand ...	25	Cash at Bank ...	2,770

Make provision for the following :

(*a*) Liability for Salary and Wages ...	Rs.	650
(*b*) Rent and Rates unexpired	Rs.	30
(*c*) Stock in Trade on 31st March, 1959	Rs.	6,500

(G. P. Rs. 14,235 ; N. P. Rs. 2,075; B/S Total Rs. 18,575)

Q. No. 2.

The following are the balances extracted from the books of Shri Ram Gopal as on 31st December 1957 :

	Rs.		Rs.
Ram Gopal's Capital ...	40,000	Bills Receivable ...	3,000
Interest (Dr.) ...	1,500	Sundry Creditors ...	20,000
Office Rent ...	500	Bank Balance (Cr.) ...	2,000
Taxes and Insurance ...	200	Business Premises ...	40,000
Plant & Machinery ...	20,000	Loan on Mortgage of premises ...	30,000
Sundry Debtors ...	20,000	Stock of Books and Stationery ...	500
Wages ...	30,000	Office Expenses ...	700
Stock (1-1-1957) ...	5,000	Sales ...	96,400
Salaries ...	7,000	Purchases ...	42,000
Bills Payable ...	4,000		
Loose Tools ...	1,000		
Cash on hand ...	1,000		

Adjustments :

The Stock at close was Rs. 8,000
Wages outstanding Rs. 600
Salaries outstanding Rs. 200
Rent outstanding Rs. 150
Insurance Prepaid Rs. 50.

Pass necessary adjusting entries and prepare the Trading and Profit & Loss account for the year ended 31st December, 1957 and Balance Sheet as on that date.

Hints : Interest (Dr.) – P & L A/c Debit side.

Bank Balance (Cr.)
Loan on Mortgage of Premises } Liabilities.
Stock of Books and Stationery–Asset.

(G P. Rs. 26,800 N. P : Rs. 16,600 ; B/S Total Rs. 1,13,550).

Q. No. 3

The following Trial Balance has been extracted from the books of S. Kumar on 31st December, 1970 :

	Rs.		Rs.
Machinery ..	4,000	Capital	9,000
Cash at Bank ..	1,000	Sales	16,000
Cash in hand ..	500	Sundry Creditors ..	4,500
Wages ..	1,000	Interest Received ..	300
Purchases ..	8,000		
Stock on 1st Jan. 1970	6,000		
Sundry Debtors ..	4,400		
Bills Receivable ..	2,900		
Rent ..	450		
Commission ..	250		
General Expenditures ..	800		
Salaries ..	500		
	29,800		29,800

Adjustments :

(*a*) Wages overpaid	..	100
(*b*) Rent prepaid	..	150
(*c*) Commission due	..	75
(*d*) Interest accrued due	..	125
(*e*) Stock on 31-12-1970	..	8,000

Prepare Trading and Profit & Loss account for the year ending 31st December, 1970 and Balance Sheet as on that Date.

(G. P. Rs 9,100; N. P. Rs. 7,600; B/S Total Rs. 21,175)

Q. No. 4

The following Trial Balance is extracted from the books of Thiru S. Sukumar on 31st December, 1972 :

	Dr. Rs.	Cr. Rs.
Furniture and Fittings	640	
Motor Vehicles	6,250	
Buildings	7,500	
Capital		12,500
Bad Debts	125	
Sundry Debtors	3,800	
Sundry Creditors		2,700
Stock on Jan. 1, 1972	3,460	
Purchases	5,475	
Sales		15.450
Bank Overdraft		2,850
Sales Returns	200	
Purchases Returns		125
Advertising	450	
Interest	118	
Commission		375
Cash	650	
Income Tax	250	
Insurance	1,000	
General Expenses	782	
Salaries	3,300	
	34,000	34,000

Adjustments :

(*a*) Stock in hand on 31-12-1972 was Rs. 3,500.
(*b*) Rs. 100 is due for Interest on Bank Overdraft.
(*c*) Salaries outstanding Rs. 300.
(*d*) Insurance prepaid for a quarter.
(*e*) One-third of the Commission Received is in respect of work to be done next year.

Hints : (*d*) 1/4th of Insurance amount is prepaid i.e. Rs. 250.
(*e*) 1/3rd of Commission received is Income Received in Advance. Hence Rs. 125 must be deducted from Commission in P & L A/c and shown on the liabilities side of B/S.

(G. P. Rs. 9,940; N P. Rs. 4,265; B/S Total Rs. 22,590)

Q. No. 5.

From the following Ledger balances of X, prepare a Trading and Profit & Loss Account for the year ended 31st December, 1970 and Balance Sheet as at that date, after making the necessary adjustments.

	Rs.		Rs.
X's Capital ..	80,000	Printing and Stationery	400
X's Drawings ..	6,000	Rent, Rates and Taxes	4.600
Plant and Machinery	25,000	Sundry Creditors ..	10,000
Stock on 1-1-1970 ..	15,000	Sales ..	1,20,000
Purchases ..	82,000	Returns Outwards .	1,000
Returns Inwards ..	2,000	Postage and Telegrams	800
Furniture and Fixtures ..	5,000	Rent of Premises sublet during the year ..	2,400
Sundry Debtors ..	20,000	Insurance Charges ..	700
Carriage Outwards ..	500	Salaries and Wages ..	21,300
Freight and Duty ..	2,000	Cash in hand ..	6,200
Trade Expenses .	800	Cash at Bank ..	20,500

Adjustments :

(i) Stock on 31st December, 1970 was Rs. 14,000.
(ii) Insurance prepaid was Rs. 100.
(iii) Rent due and payable Rs. 400.
(iv) Rent accrued and receivable Rs. 100.

(G P. Rs. 34,000; N.P. Rs. 7,100; B/S Total Rs. 91,500; Suspense A/c Rs. 600 Dr.)

Q. No. 6.

From the undermentioned Trial Balance of Arul prepare the Trading and Profit & Loss Account for the year ended 31st March, 1974 and a Balance Sheet as at that date.

	Rs.		Rs.
Stock (Opening) ..	45,000	Capital ..	90,000
Plant and Machinery ..	85,000	Sundry Creditors ..	43,000
Fixtures and Fittings ..	7,500	Discount Received ..	3,500
Freehold Premises ..	75,000	Bank Overdraft ..	20,000
Purchases ..	1,50,000	Purchases Returns ..	1,500
Salaries ..	14,000	Sales ..	3,37,070
Sundry Debtors ..	55,000		
Manufacturing Wages	30,000		
Manufacturing Expenses	15,000		
Carriage Inwards ..	2,000		
Carriage Outwards ..	2,100		
Factory Expenses ..	10,000		
Bad Debts ..	750		
Interest and Bank Charges ..	625		
Rent .	750		
Insurance ..	1,500		
Cash at Bank ..	695		
Cash in hand ..	150		
	4,95,070		4,95,070

Adjustments:

		Rs.
(1) Closing Stock	..	57,000
(2) Insurance unexpired	..	500
(3) Salary includes advance for next period	..	600
(4) Outstanding Interest on Overdraft ..	..	1,000

(5) Rent at Rs. 200 per month for the last two months unpaid.

Hints: Salary prepaid Rs. 600: Deduct Rs. 600 in P & L Account and show the amount on the Assets side of B/S. Rent outstanding Rs. 2×200 = Rs. 400. Add the amount in P & L A/c and show it on the Liabilities side of the B/S.

(G.P. Rs. 1,43,570; N.P. Rs. 1,27,045; B/S Total Rs. 2,81,445).

Exercises with Adjustments on Outstandings, Prepayments and Depreciation.

Q. No. 7

From the following particulars prepare the Trading and Profit & Loss Account of Kumaran for the year ended 30th June, 1966 and the Balance Sheet as on that date.

		Rs.			Rs.
Sales	..	83,000	Sales Returns	..	600
Opening Stock	..	8,200	Furniture	..	7,400
Land and Buildings		23,700	Travelling Expenses	..	5,300
Debtors	..	9,300	Salaries	..	16,900
Creditors	..	6,100	Purchase Returns	..	100
Bill Receivable	..	1,200	Insurance	..	600
Wages	..	12,600	Capital	..	29,600
Purchases	..	13,600	Plant	..	20,000
Carriage (In)	..	900	Bank Overdraft	..	5,000
Discount Received	..	200	Cash	..	3,700

Adjustments :

Closing Stock was valued at Rs. 7,000.

Provide for Depreciation of 10% on Plant.

Insurance was prepaid for a Quarter.

An amount of Rs. 3,000 was due to workers.

(G.P. Rs. 51,200; N P. Rs. 26,750; B/S Total Rs. 70,450).

Q. No. 8

Prepare the Trading and Profit & Loss Account of Chandran for the year ended 31st December, 1966 and the Balance Sheet as on that date.

	Rs.		Rs.
Land and Buildings	27,500	Postage ..	1,000
Sales ..	73,700	Salesmen's Salaries ..	6,300
Purchase Returns ..	4,000	Plant ..	16,300
Creditors ..	2,300	Tools ..	2,700
Bills Receivable ..	6,200	Cash ..	500
Debtors ..	6,100	Discounts ..	300
Salaries ..	12,600	Rent Received ..	2,400
Travelling Expenses	4,300	Capital	34,800
Wages ..	14,800	Purchase ..	8,300
Taxes ..	2,400	Heating ..	6,000
Stock ..	1,900		

Adjustments :

Provide for 20% Depreciation on Plant and Tools.

Taxes were prepaid by Rs. 180.

Salesmen were overpaid to the extent of Rs. 50.

Closing Stock was valued Rs. 1,500.

(G. P. Rs. 48,200; N. P. Rs. 20,130: B/S Total Rs. 57,230)
Suspense A/c Dr. Rs. 3,800)

Q. No. 9.

Prepare the Trading and Profit & Loss Account of Chandran for the year ended 30th June, 1967 and the Balancc Sheet as on that date.

	Rs.	Rs.
Cash	3,200	
Sales		2,48,000
Debtors	10,600	
Land and Buildings	1,05,000	
Wages (Factory)	37,000	
Opening Stock	8,500	
Crèditors		10,000
Bills Receivable	16,200	
Plant	32,400	
Salaries	26,500	
Coal	12,300	
Bills Payable		3,200
Furniture	8,500	
Puchases Returns		1,600
Sales Returns	800	
Insurance	3,800	
Bad Debts	200	
Rent and Rates	4,500	
Bank	12,800	
Purchases	72,000	
Loans		23,500
Discount (Dr.)	400	
Rent Received		2,500
Capital		65,900

Adjustments :

Wages were outstanding to the extent of Rs. 9,200.
Closing Stock was valued at Rs. 4,300.
An amount of Rs. 800 paid towards salaries had to be recovered.
Insurance was prepaid for a quarter.
Depreciate Plant at 15%.

(G.P. Rs. 1,14,100; N.P. Rs. 78,090; B/S Total Rs. 1,89,890).

Q. No. 10.

From the following particulars prepare the Trading and Profit & Loss Account of Raman & Brothers for the year ended 31st December, 1967 and the Balance Sheet as on that date.

		Rs.	Rs.
Land and Buildings	..	82,600	
Cash	..	8,200	
Debtors	..	15,300	
Sales	..		2,66,400
Opening Stock	..	4,700	
Creditors	..		12,600
Wages (Manufacturing)	..	27,400	
Coal	..	12,300	
Bills Receivable	..	4,300	
Plant	..	76,500	
Furniture	..	3,700	
Salaries	..	24,700	
Sales Returns	..	1,300	
Purchase Returns	..		1,400
Bad Debts	..	400	
Rent and Taxes	..	3,600	
Insurance	..	1,200	
Travelling Expenses	..	8,300	
Purchases	..	36,500	
Loan from Mr. Kesu	..		15,000
Bank	..	12,000	
Discount (Dr.)	..	600	
Capital	..		28,200

Adjustments :

Provide for 10% Depreciation on Plant and 20% on Furniture.

Insurance was prepaid for a quarter.

Wages were outstanding to the extent of Rs. 400.

Closing Stock was valued at Rs. 7,500.

(G.P.Rs. 1,92,700; N.P. Rs. 1,45,810; B/S Total Rs. 2,02,010).

Q. No. 11

Prepare the Trading and Profit & Loss Account of Rajan for the year ended 31st December, 1968 and the Balance Sheet as on that date.

		Rs.	Rs.
Wages (Factory)	...	33,000	
Opening Stock	...	5,700	
Creditors	...		15,180
Bills Receivable	...	10,700	
Plant	...	62,700	
Cash	...	1,800	
Sales	...		2,62,000
Debtors	...	15,600	
Land and Buildings	...	82,080	
Salaries	...	24,700	
Coal	...	8,700	
Bills Payable	...		1,500
Furniture	...	6,200	
Purchase Returns	...		900
Sales Returns	...	600	
Purchases	...	58,000	
Loans	...		15,000
Discounts (Dr.)	...	600	
Rent Received	...		1,500
Capital	...		52,300
Insurance	...	12,600	
Bad Debts	...	6,000	
Rent and Rates	...	6,000	
Bank	...	13,400	

Adjustments :

Wages were outstanding to the extent of Rs. 8,600
Closing Stock was valued at Rs. 7,300.
Rates were prepaid for a quarter.
Depreciation on Plant at 10%.

(G.P. Rs. 1,55,600; N.P. Rs. 1,02,430; B/S Total Rs. 1,95,010)

Q. No. 12.

Prepare the Trading and Profit & Loss Account of Kishanchand for the year ended 31st December, 1966 and the Balance Sheet as on that date :

		Rs.	Rs.
Salaries	...	12,400	
Coal	...	1,700	
Bills Payable	...		800
Furniture	...	600	
Purchase Returns	...		400
Sales Returns	...	200	
Wages (Factory)	...	4,200	
Opening Stock	...	1,400	
Creditors	...		300
Bills Receivable	...	600	
Plant	...	9,200	
Cash	...	500	
Sales	...		26,300
Debtors	...	1,200	
Land and Buildings	...	5,400	
Insurance	...	1,800	
Bad Debts	...	100	
Rents and Rates	...	700	
Bank	...	4,700	
Purchase	...	5,300	
Loans	...		8,500
Discounts (Dr.)	...	400	
Rents Received	...		900
Capital	...		13,200

Adjustments :

Salaries cutstanding to the extent of Rs. 1,200.
Closing Stock valued at Rs. 2,300.
Insurance was prepaid for a quarter.
Depreciate Plant at 20%.

(G.P. Rs. 16,200; N.L. Rs. 890; B/S Total Rs. 23,110)

Q. No. 13.

From the following particulars, prepare the Trading and Profit & Loss Account of Gopalan for the year ended December 31, 1968 and the Balance Sheet as on that date:

		Dr. Rs.	Cr. Rs.
Capital	...		30,000
Drawings	...	1,000	
Land and Buildings	...	89,600	
Cash	...	1,250	
Debtors	...	15,380	
Sales	...		2,66,040
Stock (January 1, 1968)	...	4,790	
Wages	...	27,480	
Carriage	...	12,310	
Bills Receivable	...	4,300	
Creditors	...		12,850
Machines	...	76,500	
Furniture	...	3,700	
Salaries	...	23,740	
Sales Returns	...	1,340	
Bad Debts	...	400	
Rent and Taxes	...	3,670	
Insurance	...	1,000	
Stationery	...	1,300	
Travelling Expenses	...	7,000	
Loan from Raman	...		15,000
Purchases	...	36,590	
Bank	...	12,000	
Discount Allowed	...	650	
General Expenses	...	70	
Postage	...	1,250	
Purchase Returns	...		1,430

Adjustments

(1) **Depreciation :**

Machines	...	10%
Furniture	...	20%
Land and Buildings	...	2%

		Rs.
(2) Taxes unpaid	...	250
(3) Wages overpaid	...	4,350
(4) Stock (December 31, 1968)		7,530

(G.P. Rs. 1,96,840; **N.P. Rs.** 1,47,328; B/S Total Rs. **2,04,428)**

Q. No. 14.

From the following Ledger Balances prepare Trading and Profit & Loss Account and the Balance Sheet as on 31-12-1971:

		Rs.			Rs.
Capital	...	16,000	Cash at Bank	...	2,600
Drawings	...	700	Salaries		800
Plant & Machinery		12,000	Repairs	...	190
Horses & Carts	...	2,600	Stock	...	1,600
Sundry Debtors	...	3,600	Rent	...	450
Sundry Creditors	...	2,600	Manufacturing Expenses	...	150
Purchaces	...	2,000	Bills Payable	...	2,350
Sales	...	6,200	Bad Debts	...	500
Wages	...	800	Carriage	...	160
Commission Earned		1,000			

Adjustments :

The Closing Stock was Rs. 1,600.
Depreciate Plant &Machinery 10% and Horses & Carts 15%.
Unpaid Rent amounted to Rs. 50.

Hint : Carriage implies Carriage Inward.

(G.P. Rs. 3,090; N.P. Rs. 510; B/S Total Rs. 20,810.)

Q. 15.

On 31st March, 1971 the following figures were extracted from the books of Rama Rao. Prepare Final Accounts for the year after taking into account the following adjustments :

(*a*) Depreciate 10% off Plant & Machinery and Fixture & Fittings.

(*b*) Provide for March Rent unpaid Rs. 150.

(*c*) Provide for Bad Debts 2½% on Sundry Debtors.

(*d*) Outstanding Wages Rs. 800.
Outstanding Salaries Rs. 350.

(*e*) Stock on 31st March, 1971 : Rs. 16,580.

	Rs.		Rs.
Plant & Machinery	55,000	Cash at Bank ...	2,245
Fixtures & Fittings	1,720	Cash in hand ...	110
Capital ...	93,230	Sundry Debtors ...	48,000
Factory Fuel & Power	542	Sundry Creditors...	22,880
Office Salaries ...	3,745	Purchases ...	83,290
Lighting (Factory)	392	Wages ...	9,915
Sales ...	1,26,117	Rent & Taxes ...	1,705
Travelling Expenses	925	Office Expenses ...	2,778
Carriage on Sales ...	960	Carriage on Purchases	897
Discount ...	422	Bills Payable ...	6,984
Drawings ...	6,820	Purchases Returns	3,172
Manufacturing Expenses ...	2,940	Commission ...	260
Insurance ...	470	Sales Returns ...	7,422
Stock ...	21,725	Insurance Prepaid	100

(G.P. Rs. 17,946; N. L. Rs. 691; B/S Total Rs. 1,16,883;
Suspense A/c. Cr. Rs. 572.)

Q. No. 16.

The following balances are extracted from the books of Arumugam on 31st December 1960. Prepare Trading and Profit & Loss Account for the year ending 31st December, 1960 and a Balance Sheet as at the closing date :

	Rs.		Rs.
Arumugam's Capital	15,000	Stock (1-1-1960) ...	15,000
,, Drawings	3,000	Purchases ...	60,000
Furniture & Fittings ...	500	Sales ...	80,000
Typewriters ...	1,000	Return Outwards ...	500
Cycles ...	250	Return Inwards ...	1,000
Sundry Debtors ...	15,000	Carriage Inwards ...	750
Sundry Creditors ...	13,000	Carriage Outwards	1,250
Rent	2,400	Rates & Taxes ...	600
Salaries ...	3,600	Reserve for Doubtful Debts ...	500
Discounts Allowed to Customers ...	425	Cash on Hand ...	75
General Expenses ...	1,800	Cash at Bank ...	2,350

The following adjustments are to be made :

(*a*) Stock on hand as on 31-12 1960 : Rs. 11,000

(*b*) Write off Depreciation on :
Furniture at 6%,
Typewriters at 15%,
Cycles at 20%.

(*c*) Maintain Reserve for Doubtful Debts at 5% on Sundry Debtors.

(G.P. Rs. 14,750; N.P. Rs. 4,195; B/S Total Rs. 29,195)

Q. No. 17

On 31st March, 1974 the following figures were extracted from the books of R. Sankar. Prepare Final Accounts for the year, after taking into account the following adjustments :

(*a*) Depreciate 10% off Plant & Machinery and Fixtures & fittings.

(*b*) Provide for March Rent unpaid Rs. 150.

(*c*) Provide Reserve for Bad Debts at 2½% on Debtors.

(*d*) Outstanding Wages Rs. 800 and Salaries Rs. 350.

(*e*) Stock on 31st March, 1974 : Rs. 16,580.

	Rs.		Rs.
Plant & Machinery ...	55,000	Cash at Bank ...	2,245
Fixtures & Fittings ...	1,720	Cash on hand ...	118
Capital ...	90,230	Sundry Debtors ...	48,000
Factory Fuel and Power	542	Sundry Creditors ...	22,880
Office Salaries ...	3,745	Purchases ...	89,790
Lighting (Factory) ...	392	Wages ...	9,915
Sales ...	1,26,117	Rent & Taxes ...	1,705
Travelling Expenses...	925	Office Expenses ...	2,778
Carriage on Sales ...	960	Carriage on Purchases	897
Discount ...	422	Purchase Returns ...	6,172
Drawings ...	6,820	Bills Payable ...	6,412
Stock (1-4-73) ...	21,725	Commission ...	260
Manufacturing Expenses ...	2,940	Sales Returns ...	522
Insurance ...	470	Interest Earned ...	80

(G. P. Rs. 21,346 ; N. P. Rs. 2,789; B/S Total Rs. 1,16,791.)

Q. No. 18.

The following balances were extracted from the books of Mr. Ponnambalam as on 31st December, 1965 :

	Rs.		Rs.
Capital ...	85,000	Bad Debts Reserve ...	1,000
Drawings ...	5,000	Bills Payable ...	17,800
Stock on 1st Jan 1965.	16,000	Salaries ...	4,000
Sundry Creditors ...	18,000	Manufacturing Wages	25,000
Furniture ...	6,000	Advertising ...	20,000
Printing & Stationery	2,000	Machinery ...	80,000
Coal & Water ...	800	Office Rent ...	2,500
Purchases ...	1,20,000	Bills Receivable ...	12,000
Carriage Inwards ...	3,000	Insurance ...	600
Bank Loan ...	30,000	Cash in Hand ...	2,500
Discount Received...	600	Cash at Bank ...	10,000
Discount Allowed ...	800	Sundry Debtors ..	40,000
Sales ...	2,00,000	Factory Rent ...	1,800
Postage ...	400		

The following adjustments are to be made:

(i) Closing Stock amounted to Rs. 20,000.
(ii) Reserve for Bad Debts to be raised to 5%.
(iii) Insurance was paid upto 30th June, 1966.
(iv) Depreciate Machinery at 10% and Furniture at 5%.
(v) Provide for (*a*) Manufacturing Wages due Rs. 2,000;
(*b*) Salaries due Rs. 500.

Prepare the Trading and Profit & Loss Account for the year ended 31st December 1965 and the Balance Sheet as on that date.

(G. P. Rs. 51,400; N P. Rs. 12,200; B/S Total Rs. 1,60,500.)

Q. No. 19.

From the following particulars extracted from the books of Mr. Alavayan prepare the Trading and Profit & Loss Account for the year ended March 31, 1966 and the Balance Sheet as on that date :

		Rs.			Rs.
Capital	...	50,000	Land	...	13,500
Cash at Bank	...	2,000	Sales	...	1,25,500
Cash on hand	...	500	Carriage Inwards		800
Buildings	...	30,000	Gas	...	2,200
Wages	...	15,000	Sundry Creditors		2,000
Salaries	...	10,000	Sundry Debtors ...		15,000
Rent & Rates	...	1,800	Purchases Returns		2,000
Printing & Stationery		1,200	Sales Returns	...	1,500
Stock on 1-4-1965...		8,000	Bills Receivable ...		4,000
Purchases	...	70,000	Discount Receivable		400
Insurance	...	800	Discount Allowed		8,000
Machinery	...	12,000	Furniture	...	3,000
Drawings	...	6,000	Travelling Expenses		1,800
Loans	...	10,000			

Provide for the following :

(*a*) Prepaid Insurance Rs. 200.
(*b*) Depreciation on (i) Machinery 10%, (ii) Furniture 5%.
(*c*) Interest on Capital at 3%.
(*d*) Outstanding Wages Rs. 800;
Outstanding Salaries Rs. 600.
(*e*) Write off Bad Debts Rs. 1,000 and create a Reserve for Bad Debts at 3% on Debtors.
(*f*) Value of Closing Stock Rs. 10,000

(G.P. Rs. 39,200; N.P. Rs. 11,330; B/S Total Rs. 87,430.
Suspense A/c Rs. 17,200. Cr.)

Q. No. 20.

From the following particulars extracted from Nandarajan's books, prepare the Trading and Profit & Loss Account for the year ended December 31, 1964 and the Balance Sheet as on that date:

	Rs.		Rs.
Cash ...	2,000	Sales Returns ...	200
Stock (1st January 1964)	8,320	Discounts Received...	300
Salaries ...	12,600	Bad Debts ...	100
Advertising ...	1,200	Wages ...	10,200
Creditors ...	7,500	Land ...	13,200
Bills Receivable ...	600	Plant ...	18,500
Bank Overdraft ...	3,700	Furniture ...	2,500
Sales ...	58,000	Lorries ...	8,000
Purchase Returns ...	400	Debtors ...	5,800
Packing ...	500	Loans ...	10,000
Purchase ...	15,200	Capital ...	20,620
Travelling Expenses	1,600		

Adjustments :

Provide for Depreciation at 20% on Plant and 2% on Land.
Create a Bad Debts Reserve of 3% on Debtors.
An amount of Rs. 300 was outstanding under a new Insurance Policy.
Travelling expenses were overdrawn by the employees to the extent of Rs 200.
Closing Stock was valued at Rs. 7,500.

(G.P. Rs. 31,980; N.P. Rs. 12,042; B/S Total Rs. 54,162)

Q. No. 21

Prepare the Trading and Profit & Loss Account of Krishnan for the year ended 30th June, 1963 and the Balance Sheet as on that date :

	Rs.		Rs.
Land and Buildings...	18,300	Purchases ...	25,000
Wages ...	18,900	Bad Debts Reserve ...	400
Furniture ...	3,800	Debtors ...	6,000
Salaries ...	16,500	Creditors ...	3,700
Plant ...	27,300	Opening Stock ...	2.000
Sales ...	86,300	Insurance ...	2,400
Commission Paid ...	2,300	Sales Returns ...	200
Purchases Returns...	700	Postage ...	300
Bank ...	8,000	General Expenses ...	1,200
Cash ...	500	Interest received on Bank	
Bills Receivable ...	1,200	Deposit ...	100
Carriage Inwards ...	600	Capital ...	43,300

Adjustments :

Closing Stock was valued at Rs. 3,200.
Provide for Bad Debts Reserve at 5% on Debtors.
Insurance was prepaid for a quarter.
Wages were outstanding Rs. 800 and
Advertising Expenses for Rs. 300.
Depreciate Plant at 10%.

(G. P. Rs. 42,700; N.P. Rs. 17,770; B/S Total Rs. 65,870)

Q. No. 22.

The following are the balances extracted from the books of Mr. Ismail as on 31st March 1964 :

	Rs.		Rs.
Mr. Ismail's Capital...	15,000	Purchases ...	1,90,000
Mr. Ismail's Drawings...	6,000	Sales ...	2,50,000
Stock on 1-4-1963 ...	12,500	Wages ...	10,000
Bills Receivable ...	1,500	Sales & Returns ...	10,000
Bills Payable ...	1,200	Carriage Inwards ...	5,500
Sundry Debtors ...	15,000	Salaries ...	5,500
Sundry Creditors ...	10,000	Rent ...	2,200
Advertisement ...	750	Furniture ...	1,000
Entertainment Expenses ...	600	Typewriter ...	800
		Lorry ...	6,000
Discount Allowed ...	1,200	Lorry Maintenance...	3,600
Postage & Telegrams	500	Cash on hand ...	350
Insurance ...	600	Cash at Bank ...	900
Miscellaneous Expenses ...	1,200		
Bad Debts ...	1,000		

Pass the following adjustment entries :

(1) Stock as on 31-3-1964 Rs. 7,500.

(2) Provide the following outstandings :
Wages Rs. 1,000; Salaries Rs. 500; Rent Rs 200; Lorry Maintenance Rs. 500.

(3) Create a Reserve for Doubtful Debts at 5% on Sundry Debtors.

(4) Write off Depreciation :
Furniture 10% ; Typewriter 15% ; Lorry 25%.

Prepare Trading and Profit & Loss Account for the year ended 31-3-1964 and a Balance Sheet as on that date.

(G.P. Rs. 29,000; N P. Rs. 8,180; B/S Total Rs. 30,580)

Q. No. 23.

Parasuram's books show the following balances. Prepare his Trading and Profit & Loss Account for the year ended 31st December, 1968 and Balance Sheet as on that date :

		Rs.	Rs.
Stock 1st January, 1968	...	15,000	
Purchases	...	13,000	
Sales	...		30,000
Carriage Inwards	..	200	
Printing & Stationery	...	800	
Salaries	...	5,000	
Drawings	...	1,700	
Sundry Creditors	...		2,000
Sundry Debtors	...	18,000	
Furniture	...	1,000	
Capital	...		25,000
Postage & Telegram	...	900	
Interest Paid	...	400	
Machinery	...	4,000	
Loan Account	...		3,000
		60,000	60,000

Adjustments :

(1) Depreciate Machinery by 10%, and Furniture by 5%.

(2) Allow Interest on Capital at 5%.

(3) Provide 5% Reserve for Bad and Doubtful Debts.

(4) The Stock on 31st December, 1968 was Rs. 12,000.

(G.P. Rs. 13,800; N.P. Rs. 4,100 B/S; Total Rs. 33,650)

Q. No. 24.

The following Trial Balance was extracted from the Books of Raman on 30-6-1969 :

		Dr. Rs.	Cr. Rs.
Capital	...		49,000
Drawings	...	4,000	
General Expenses	...	5,680	
Buildings	...	22,000	
Machinery	...	10,000	
Stock (1-7-1968)	...	32,400	
Coal	...	4,480	
Wages	...	14,400	
Taxes & Insurance	...	2,630	
Debtors	...	12,560	
Creditors	...		5,760
Discount	...	1,100	
Loan at 6% Interest	...		15,000
Motor-Car	...	7,500	
Furniture	...	500	
Reserve for Bad Debts	...		1,800
Commission	...		2,640
Motor-Car Expenses	...	2,810	
Bills Payable	...		7,700
Cash	...	160	
Bank Overdraft	...		6,600
Indian Bank Shares	...	5,000	
Sales	...		1,30,720
Purchases	...	93,550	
Interest on Loan	...	450	
		2,19,220	2,19,220

Prepare Trading and Profit & Loss Account for the year ended 30-6-1969 and Balance Sheet as on that date after giving effect to the following :

(1) Closing Stock Rs. 47,000.

(2) Depreciation : Machinery 10%, Motor-Car 12%.

(3) Six months Interest due on the loan.

(4) Bad Debts to be written off Rs. 320.

(5) Reserve for Bad Debts to be kept at 5% on Debtors.

(G.P. Rs. 32,890; N. P. Rs. 21,378; B/S Total Rs. 1, 10,888)

Q. No. 25.

Prepare the **Trading** and Profit & Loss Account of **Sukumaran for the year** ended 30th June, 1966 and the **Balance Sheet as on that date :**

	Rs.		Rs.
Cash ...	370	Rent Received ...	5,000
Opening Stock ...	5,700	Electricity (Factory)...	6,500
Debtors ...	3,200	Bills Receivable ...	1,700
Sales ...	63,900	Travelling Expenses	2,300
Wages ...	13,200	Insurance ...	3,600
Creditors ...	5,200	Purchases ...	12,000
Bad Debts Reserve	400	Purchases Returns ...	500
Carriage ...	300	Discounts ...	300
Trade Marks ...	5,300	Bad Debts ...	700
Advertising ...	1,205	Bank ...	9,500
Salaries ...	10,900	Capital ...	58,720
Machinery ...	28,900	Land and Buildings...	28,000

Adjustments :

Closing Stock valued at Rs. 3,200 included damaged goods worth Rs. 200 which had to be written off.

Depreciate Machinery at 20% and Land and Building at 5%.

Insurance was prepaid Rs. 800.

Rents Received included Rs. 300 relating to July 1966.

Provide Bad Debts Reserve of 5% on Debtors.

(G.P. Rs. 29,900; N.P. Rs. 9,210; B/S Total Rs. 73,430.)

Q. No. 26.

The following are the balances extracted from the Books of Mr. Velan as on 31st December, 1967:

	Rs.		Rs.
Capital ...	20,000	Sundry Creditors ...	4,800
Buildings ...	15,000	Cash on hand ...	300
Machinery ...	10,000	Cash at Bank ...	4,700
Furniture ...	1,000	Salaries ...	14,000
Motor-Car ...	8,000	Rent ...	4,000
Opening Stock ...	16,000	Commission ...	1,400
Purchases ...	94,000	Rates and Taxes ...	600
Purchases Returns ...	1,000	Bad Debts ...	200
Sales ...	1,40,000	Insurance ...	400
Sales Returns ...	500	Discounts Earned ...	500
Sundry Debtors ...	15,000	Discounts Allowed ...	700
General Expenses ...	800	Reserve for Bad Debts...	300

Provide for the following:

(1) Outstandings: Salaries Rs. 1,200, Commission Rs. 200, Rent Rs. 800.

(2) Insurance prepaid Rs. 100.

(3) Stock on 31-12-1967: Rs 20,000.

(4) Maintain the Reserve for Bad Debts at 5%.

(5) Depreciate Machinery by 5%, Motor-Car by 10%, Furniture by 4% and Buildings by 3%.

Prepare Trading and Profit & Loss Account for the year ended 31-12-1967 and a Balance Sheet as on the date.

(G.P. Rs. 50,500; N.P. Rs. 24,560, B/S Total Rs. 71,560 Suspense A/c Rs. 20,000.)

Q. No. 27.

The following balances are extracted from the Books of Thiru Chinnappan as on 30-6-1968 :

		Rs.			Rs.
Capital	...	20,000	Rent	...	2,000
Drawings	...	5,000	Taxes	...	300
Purchases	...	90,000	Insurance	...	600
Sales	...	1,30,000	Sundry Debtors	...	8,000
Returns Inwards	...	700	Sundry Creditors	...	6,000
Returns Outwards	...	900	Cash on hand	...	500
Carriage Inwards	...	1,100	Cash at Bank	...	2,500
Carriage Outwards	...	800	Furniture	...	1,000
Duty on Purchases	...	2,000	Land	...	20,400
Stock on 1-7-1967	...	11,000	Salaries	...	5,000
Motor Van	...	6,000			

The following adjustments are necessary:

(*a*) Depreciate : Motor Van at 10%, Furniture at 5%.

(*b*) Stock on hand as on 30-6-1968 Rs. 14,000.

(*c*) Create a 5% Reserve for Bad Debts.

Prepare the Trading and Profit & Loss Account and also the Balance Sheet as on that date.

(G. P. Rs. 40,100 ; N.P. Rs. 30,350 B/S Total Rs. 51,350)

Q No 28.

The following balances are extracted from the Books of Ramdoss on 31st December, 1958. Prepare a Trading and Profit & Loss Account and a Balance Sheet as on that date.

	Rs.		Rs.
Ramdoss's Capital...	15,000	Discounts (Dr.) ...	800
Ramdoss's Drawings	2,500	Discounts (Cr) ...	1,000
Fixtures and Fittings	1,300	Taxes ...	1,000
Bank Overdraft ...	2,100	General Expenses ...	2,000
Sundry Creditors ...	5,500	Salaries ...	4,500
Business Premises ...	10,000	Commission (Dr.) ...	1,100
Stock (1st Jan. 1958).	11,000	Carriage on Purchases.	900
Sundry Debtors ...	9,000	Reserve for Bad and Doubtful Debts ...	1,000
Rent from Tenants ...	500	Returns Inwards ...	1,000
Purchases ...	55,000		
Sales ...	75,000		

Adjustments :

Stock on hand at 31st Dec. 1958 amounted to Rs. 10,000.
Provide Rs. 500 for Bad and Doubtful Debts.
Write off Depreciation:
Business Premises Rs. 200 ;
Fixtures & Fittings Rs. 150.

(G. P. Rs. 17,100; N P. Rs. 9,350; B/S Total Rs 29,450).

Q. No. 29.

The following Trial Balance was taken from the Books of Mr. Balan on 31st December. You are required to make the following adjustments before the preparation of Trading and Profit & Loss Accounts and Balance Sheet:

(a) 10% Depreciation off Plant and Machinery.

(b) 5% Depreciation off Furniture and Fixtures.

(c) Reserve for Bad Debts to be made up to 5% on Debtors.

(d) Rent accrued but not received amounted to Rs. 50.

(e) Insurance unexpired amounted to Rs. 30.

(f) Stock on 31st December 1958 was valued at Rs. 14,500

Trial Balance

	Rs.		Rs.
Freehold Premises ...	15,000	Capital ...	50,000
Purchases ...	27,000	Commission ...	4,000
Bad Debts ...	250	Discounts ...	300
Rates and Insurance	300	Returns Outwards ...	800
Manufacturing Wages	8,400	Sundry Creditors ...	6,200
Stock (1st Jan. 1958)	9,600	Bills Payable ...	1,500
Returns Inwards ...	1,200	Reserve for Doutful Debts ...	350
Carriage Inwards ...	500	Miscellaneous Receipts	50
Sundry Debtors ...	10,000	Sales ...	73,000
Fuel and Power ...	200		
Goodwill ...	30,000		
Furniture and Fixtures	4.000		
Cash on hand ...	1,050		
Cash at Bank ...	7,500		
Office Salaries ...	1,200		
Plant and Machinery	20,000		
	1,36,200		1,36,200

(G. P. Rs. 41,400; N.P. Rs. 41,730; B/S Total Rs. 99,430).

Q. No. 30.

The following balance were extracted ftom the books of Mohan. Prepare the Trading and Profit & Loss Account for the year ended 31st December 1970 and the Balance Sheet as on that date :

		Rs.			Rs.
Stock (1-1-1970)	...	20,000	Capital	...	25,000
Purchases		45,000	Discount Received	...	200
Sundry Debtors	...	16,000	Sales	...	65,000
Furniture	...	1,000	Bank Loan	...	2,000
Machinery	...	8,000	Sundry Creditors	...	7,500
Drawings	...	2,500			
Bills Receivable	...	600			
Interest Paid	...	100			
Postage	...	300			
Carriage	...	250			
Salaries	...	3,200			
Bad Debts	...	350			
Bank Charges	...	50			
Cash in Hand	...	150			
Cash at Bank	...	1,500			
Rent	...	700			
		99,700			99,700

Adjustments:

Depreciate Machinery by 10% and Furniture by 5%;
Provide 5% Reserve for Bad Debts on Sundry Debtors
Allow Interest on Capital at 8%;
Rent Outstanding Rs. 300;
Closing Stock was valued at Rs. 18,000.

(G. P. Rs. 17,750; N.P. Rs. 9,300; B/S Total Rs. 43,600.)

Q. No. 31

The following Trial Balance has been taken from the books of Mr. Raman as on 31st December 1959. You are required to prepare the Trading and Profit & Loss Account for the year ended 31st December 1959 and the Balance Sheet as on that date :

Debit balances.	Rs.	*Credit balances.*	Rs.
Drawings ...	4,800	Capital ...	50,000
Stock on 1-1-59 ...	30,000	Sundry Creditors ...	10,000
Furniture & Fittings ...	13,000	Bank Loan 6% ...	20,000
Printing & Stationery	12,000	Discounts Received ...	400
Coal, Gas and Water	600	Sales ...	2,35,350
Freight ...	3,500	Bad Debts Reserve (1-1-59) ...	600
Purchases ...	75,000	Bills Payable ...	6,500
Income-Tax ...	9,500		
Discounts Allowed ...	950		
Repairs to Plant ...	1,000		
Factory Rent ...	2,500		
Salaries ...	2,800		
Manufacturing Wages	24,000		
Advertising ...	19,000		
Plant & Machinery ...	70,000		
Office Rent ...	3,600		
Miscellaneous Expenses	1,000		
Bills Receivable ...	12,500		
Carriage Outwards ..	1,500		
Insurance ...	600		
Interest ...	1,000		
Cash at Bank ...	7,500		
Cash in hand ...	3,500		
Sundry Debtors ...	33,800		
	3,22,850		3,22,850

Adjustments :

1. Closing Stock amounted to Rs. 40,000.
2. Depreciate Plant & Machinery at 10%, Furniture & Fittings at 5%.
3. Reserve for Bad Debts to be raised to 5% and Discounts on Creditors to 2%.
4. Insurance was paid for 3 months upto 31st March, 1960.
5. Rs. 200 was paid in advance for Factory Rent.
6. An outstanding bill for Repairs amounting to Rs. 300 remains to be paid.

(G. P. Rs. 1,39,950; N. P. Rs. 97,960; B/S Total Rs. 1,71,460)

Q. No. 32.

The following are the balances extracted from the ledger of Sri Meenakshi Sundaram as on 31st December 1961 :

	Rs.		Rs.
Capital ...	20,000	Reserve for Discounts on Debtors ...	200
Drawings ...	3,500	Loan at 9% ...	5,000
Buildings ...	10,000	Salaries ...	4,400
Machinery ...	2,500	Wages ...	7,500
Furniture & Fittings	600	Rent ...	2,750
Cycles ...	400	Travelling Expenses ...	1,250
Opening Stock ...	12,500	Postage and Telegrams	135
Purchases ...	75,000	Rent & Taxes ...	90
Sales ...	1,25,000	Carriage Inwards ...	2,500
Sales Returns ...	5,000	Carriage Outwards ...	750
Duty Paid on Purchases	15,000	General Charges ...	900
Sundry Debtors ...	10,000	Interest Paid ...	375
Sundry Creditors ...	7,500	Bad Debts ...	300
Reserve for Bad & Doubtful Debts...	400	Cash on hand ...	250
Cash at Bank ...	2,400		

The following adjustments are necessary:

1. Stock as on 31-12-1961: Rs. 14,000.
2. Provide the following outstandings: Salary Rs, 400; Rent Rs. 250; Wages Rs. 600 and Interest outstanding.
3. Maintain the Reserve for Doubtful Debts at 5% and Reserve for Discounts on Debtors at 2½%.
4. Provide Depreciation: Buildings 20%; Machinery 10%; Furniture 6%; Cycles 15%.

Prepare Trading and Profit & Loss Account for the year ended 31st December 1961 and Balance Sheet as on that date.

(G.P. Rs. 20,000; N.P.Rs. 8491.50; B/S Total Rs. 38,816.50)

Q. No. 33.

The following balances are extracted from the Books of Mr. Paul as on 30th June 1963:

	Rs.		Rs
Paul's Capital ...	5,000	Interest Paid ...	2,250
Drawings ...	3,600	Lorry Maintenance ...	3,500
Buildings ...	15,000	Loans Borrowed ...	25,000
Plant and Machinery	15,000	Sundry Debtors ...	10,000
Furniture and Fittings	4,000	Deposits (Dr.) ...	1,000
Lorry ...	10,000	Purchases ...	2,20,000
Creditors for Trade ...	5,000	Opening Stock ...	15,000
Freight & Duty on Purchases	25,000	Sales ...	3,00,000
Carriage Outwards ...	1,000	Carriage Inwards ...	2,000
Salaries ...	6,600	Insurance ...	500
Wages ...	20,000	Commission on Sales	1,000
Lighting Charges ...	1,000	Reserve for Doubtful Debts ...	300
Taxes and Licences ...	1,200	Reserve for Discount on Debtors ...	150
Cash on hand ...	150	Discount allowed to Customers ...	1,500
Postage and Telegrams	150		
Overdraft with Bankers	24,750		
General Charges ...	750		

Pass the following adjustment entries :

1. Stock on hand on 30-6-63 : Rs. 20,000
2. Provide for the following :
   (*a*) Salaries due Rs. 600 ;
   (*b*) Wages due Rs. 1,000 ;
   (*c*) Interest due on Loans Rs. 500 ; on Overdraft Rs. 250.
   (*d*) Lorry Maintenance due Rs. 500.
   (*e*) Insuranee Prepaid Rs. 125.
3. Maintain Reserve for Doubtful Debts at 5% and Reserve for Discounts at 2½% on Debtors.
4. Provide Depreciation on Buildings 5%, Machinery 10% Furniture and Fittings 10%, Lorry 25%,

Prepare Trading and Profit & Loss Account for the year ended 30th June 1963 and a Balance Sheet on that date.

(G. P. Rs. 37,000; N. P, Rs, 10,387.50; B/S Total Rs. 69,387.50)

Q. No. 34

The following are the balances extracted from the Books of Mr. Peter as on 31st December 1964 :

	Rs.		Rs.
Mr. Peter's Capital	20,000	Lorry ...	15,000
Mr. Peter's Drawings	5,000	Sundry Debtors ...	16,000
Bills Receivable ...	2,000	Sundry Creditors ...	9,000
Stock (1-1-1964) ...	15,000	Purchases ...	1,75,000
Bills Payable ...	1,500	Sales ...	2,45,000
Furniture ...	750	Returns Inwards ...	15,000
Typewriter ...	1,000	Carriage Inwards ...	10,000
Cycles ...	500	Lorry Maintenance	5,500

	Rs.		Rs.
Salaries ...	8,250	Reserve for Doubtful Debts	500
Wages ...	11,000	Reserve for Discounts on Debtors ...	250
Rent ...	3,300	Licences and Taxes ...	500
Interest ...	450	Repairs and Maintenance ...	300
Postage and Stationery	300		
Discount and Commission Allowed...	2,000		
General Charges ...	1,250		
Cash on hand ...	650		
Overdraft with Bankers	12,500		

Pass the adjustment entries :

1. Stock as on 31-12-64 : Rs. 20,000.
2. Provide for the following Outstandings :
   Rent Rs. 300 ;
   Salaries Rs. 750;
   Wages Rs. 1,000;
   Lorry Maintenance Rs. 500;
   Interest Rs. 250.
   Prepaid : Licenses & Taxes Rs. 125.
3. Maintain a Reserve for Discounts on Debtors at 2½% and Reserve for Doubtful Debts at 5%.
4. Provide Depreciation : Furniture 10%, Typewriter 15%. Cycles 20%, Lorry 25%.

Prepare Trading and Profit & Loss Account for the year ended 31st December 1964 and a Balance Sheet as on that date.

(G. P. Rs. 38,000; N. P. Rs. 9,970; B/S Total Rs. 50,770)

Q. No 35

The following are balances extracted from the Books of Mr. Natarajan as on 31st March, 1965 :

	Rs.		Rs.
Mr. Natarajan's Capital	10,000	Carriage Inwards ...	3,000
Drawings ...	3,000	Carriage Outwards ...	5,000
Buildings	5,000	Rent ...	2 750
Machinery ...	2,500	Discount Earned ...	500
Furniture ...	2,000	Discount Allowed ...	750
Typewriter ...	1,000	Interest (paid upto Dec. 1964) ...	375
Sundry Creditors ...	10,000		
Sundry Debtors ...	15,000	Insurance ...	600
Loans borrowed at 10%	5,000	Postage & Stationery	250
Purchases ...	1,40,000	Rates and Taxes ...	150
Opening Stock ...	20,000	Advertisement ...	750
Returns Outwards ..	5,000	Miscellaneous ...	500
Sales ...	2,00,000	Reserve for Doubtful Debts	600
Returns Inwards	10,000		
Wages ...	10,000	Bad Debts written off	300
Salaries ...	7,500	Cash on hand ...	250
Cash at Bank ...	425		

The adjustments to be made are :

1. Stock as on 31st March, 1975 : Rs 10,000.
2. Provide for the following Outstandings :—Salaries Rs. 500; Wages Rs 1,000; Rent Rs. 250; Interest on loan for 3 months; Prepaid Insurance Rs. 150,
3. Maintain a Reserve for Doubtful Debts at 5% on Debtors.
4. Write off Depreciation : Furniture 10%, Buildings 5%, Machinery 10%, Typewriter 15%.

Prapare Trading and Profit & Loss Account and a Balance Sheet as on that date.

(G. P. Rs. 31,000; N. P. Rs. 10,850; B/S Total Rs 34,725)

Q. No. 36

The following is the Trial Balance of Mr. *X* on 31st December 1965 and it is desired to prepare Final Accounts showing the results of the transactions of the year :

	Rs.		Rs.
Plant and Machinery	5,000	Sales ...	48,000
Office Furniture and Fittings ...	260	Bills Payable ...	560
Stock (1-1-1965) ...	4,800	Sundry Creditors ...	5,200
Motor Vans ...	1,200	Provision for Bad Debts	250
Sundry Debtors ...	4,500	Returns Outwards	550
Cash in hand ...	40	Discounts Received ...	370
Balance at Bank ...	650	Capital A/c ...	4,000
Wages, Factory ...	15,000		
Wages, Office ...	1,400		
Purchases ...	21,350		
Bills Receivable ...	720		
Returns Inwards ...	930		
Drawings ...	700		
Rent ...	600		
Lighting & Heating (Factory) ...	80		
Telephone	35		
Insurance ...	30		
Advertising ...	635		
General Expenses ...	100		
Bad Debts ...	250		
Discount Allowed ...	650		
	58,930		**58,930**

The following adjustments are to be made :

(a) Stock on 31st December 1965 was valued Rs. 5,200.

(b) Rent due but not paid Rs. 200.

(c) 3 months Lighting & Heating due but not paid Rs. 30.

(d) Insurance paid in advance Rs. 10.

(e) Depreciation : 1. Plant & Machinery — 10%
2. Furniture — 5%
3. Motor vans ... 25%

(f) The Provision for Bad and Doubtful Debts to be increased to Rs. 300.

(g) Discount on Debtors and Creditors is to be charged at 2½%

(G. P. Rs. 11,560; N.P. Rs. 7,202; B/S Total Rs. 16,362)

Q. No. 37

From the following ledger balances extracted at the close of a Trading year ended 31st December 1968 prepare a Trading Account, Profit & Loss Account and Balance Sheet as at the date, after giving effect to the undermentioned adjustments:

	Rs.		Rs.
Capital (1-1-1968)	50,000	Printing & Stationery ...	250
Stock ...	8,000	Rates & Taxes ...	250
Purchases ...	20,000	Travelling Expenses ...	150
Sales ...	80,000	Sundry Expenses ...	200
Returns Inwards ...	1,500	Business Premises ...	65,000
Returns Outwards ...	400	Furniture and Fixtures	2,500
Carriage Inwards ...	1,200	Bills Receivable ...	3,500
Carriage Outwards ...	2,500	Bills Payable ...	2,500
Wages ...	3,300	Sundry Debtors ...	20,000
Salaries ...	5,500	Sundry Creditors ...	15,800
Rent ...	1,100	Packing Machinery ...	4,500

Freight & Dock Charges	2,400	Smith's Loan A/c (Dr.)	5,000
Fire Insurance Premium ...	900	Investment ...	3,000
Bad Debts ...	2,100	Cash in hand ...	250
Discounts (Dr.) ...	400	Cash at Bank ...	3,500
Apprentice Premium (Cr.)	500	Proprietor's Withdrawals	3,000

Adjustments to be made for the current period are:

1. Stock on hand 31st December 1968 : Rs. 7,000.
2. Wage to Labourers for the last month are outstanding Rs. 300.
3. Salaries to clerk for the month of Dec. 1968 are outstanding Rs. 500.
4. Rent of Godown for the last month is outstanding Rs. 100.
5. Fire Insurance Premium include Rs. 600 paid on 17 July, 1968 to run for the year from 1st July 1968 to 30th June 1969.
6. Apprenticeship Premiums are for the 4 years, paid in advance on 1st Jan. 1968.
7. A Stationery Bill for Rs. 30 remains unpaid.
8. Depreciate : Business Premises by 5%; Furniture and Fixtures by 10%, Packing Machinery by 10%.
9. Create a Reserve on Debtors for Doubtful Debts at 5%
10. Create a Reserve for Discount on Debtors at 3%.
11. Interest on Smith's loan for one year has accrued at 7%
12. Interest on Investments at 5% for the half year to 31st December 1968 has accrued.
13. Interest on Capital to be allowed at 5% for the half year.
14. Interest on Drawings to be charged to him as ascertined for the year Rs. 80.

(G. P. Rs. 50,700; N.P. Rs. 30,880; B/S Total Rs. 1,09,455 Suspense A/c. Cr. 10,600.)

Provision for Bad Debts and Discounts

(1) The Trial Balance of Thiru Raju as on 31st December 1972 shows the following (among others):

		Rs.
Debtors	...	40,000
Bad Debts	...	500
Reserve for Bad Debts (1-1-1972)	...	1,000

You are required to provide for Bad and Doubtful Debts at 5% on Debtors. Give the necessary Journal entries and show the Bad Debts Account, Reserve for Bad Debts Account, Profit and Loss Account and the Balance Sheet.

(Hint—New reserve required Rs. 2,000; Profit & Loss account should be debited with Rs. 1,500.)

(2) Thiru Ashok's Trial Balance as on 31st December 1970 shows:

		Rs.
Sundry Debtors	...	10,000
Bad Debts	...	300
Reserve for Bad Debts	...	1.000

You are required to provide Bad and Doubtful Debts Reserve at 5% on Debtors. Give the necessary Journal entries and show the Ledger, Profit & Loss Account and Balance Sheet.

(Hint—There is an excess reserve of Rs. 200. Credit the Profit & Loss Account with Rs. 200).

(3) Thiru S. Vincent's Trial Balance as on 31st December 1973 has the following items:

		Rs.
Sundry Debtors	...	15,300
Bad Debts	...	500
Reserve for Bad and Doubtful Debts	...	800

It was found that of the Sundry Debtors Rs. 300 could not be recovered and hence the amount was written off as Bad Debts. A reserve of 5% was required to be maintained for Doubtful Debts. Give the Journal entries and show the Ledger, P & L Account and the Balance Sheet.

(Hint—Write off Rs. 300 as Bad Debts. Ascertain the new Reserve on Rs. 15,000).

(4) On 1st January, 1970 the Provision for Bad Debts stood at Rs. 900. During the year the Bad Debts amounted to Rs. 600. At the end of year, i.e. on 31-12-1970 the Sundry Debtors stood at Rs. 20,000. The Provision for Bad Debts is required to be maintained at 5% on Debtors. Show how the following would appear:

(*a*) The Journal, (*c*) Profit and Loss Account and
(*b*) The Ledger, (*d*) Balance Sheet.

(5) On 1st January, 1972 the Reserve for Bad Debts Accounts showed a credit balance of Rs. 1,500. During the year the Bad Debts amounted to Rs. 900. On 31st December 1979 the Sundry Debtors Account showed a balance of Rs. 18,000 of which the amount of Rs. 500 was irrecoverable and was therefore to be written off. A Reserve of 5% on Debtors was to be maintained. You are required to show the Journal, Ledger, P & L Account and the Balance Sheet.

(6) A Trial Balance Shows the following as on 31st December 1978:

	Dr. Rs.	Cr. Rs.
Sundry Debtors ...	15,000	
Reserve for Doubtful Debts (1-1-78)		1,500

You are told that Sundry Debtors include Rs. 800 which cannot be recovered. You are asked to write off this amount, create a Reserve for Doubtful Debts at 10% on Debtors. Give Journal entries and show the Ledger, Profit and Loss Account and Balance Sheet.

(Hint—Before finding out the Reserve for Doubtful Debts, deduct Rs, 800 from Sundry Debtors i.e. Rs. 15,000).

(7) The following is an extract of the Trial Balance of Mr. Arjun :

		Dr.	Cr.
		Rs.	Rs.
Sundry Debtors	—	60,000	
Bad Debts	—	1,500	
Reserve for Doubtful Debts	—		2,100

Outside the Trial Balance adjustments are given as under :

1. Write off further Bad Debts Rs. 500.
2. Maintain a Reserve for Doubtful Debts at 5% on Sundry Debtors.
3. Create a Reserve for Discounts on Debtors at 2%.

Write up the necessary Ledger accounts and show their position in the Profit and Loss Account and the Balance Sheet.

(Hint—The Reserve for Discount must be ascertained on Good Debtors and the Reserve for Doubtful Debts must be deducted from Sundry Debtors before ascertaining the Reserve for Discounts).

(8) The Trial Balance of a trader as on 31st December, 1973 shows Sundry Creditors at Rs. 12,000. Before preparing the Final Account it is desired to provide a Reserve for Discount on Creditors at 3%. Give the Journal entries and show the entries in the Ledger, Profit and Loss Account and the Balance Sheet.

CHAPTER XVI

BILLS OF EXCHANGE

Bills of Exchange play an important part in the financing of trade in the present day. The buyers of goods are not usually in a position to pay cash at once for the goods purchased by them. They require credit facility. The seller of goods finds himself compelled to extend this credit facility to the buyer in order to encourage purchase of goods from him. The buyer of goods, accordingly, promises to pay the amount due after one, two or three months. But such promises may be vague, the time of repayment uncertain and the creditor has no written evidence of the amount (debt) due. The Bill of Exchange is drawn under such circumstances by the seller of goods who is the creditor, on the buyer of goods, who is the debtor. It is a written order on a certain person requiring him to pay a specified sum of money at the expiry of a stated period.

Definition: Sec. 5 of the Negotiable Instruments Act of 1881 defines a **Bill of Exchange** as 'an instrument in writing containing an unconditional order, signed by the maker; directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument'.

Characteristics

A Bill of Exchange bears the following characteristics:

(*a*) It is an instrument in writing.

(*b*) It is an unconditional order.

(*c*) It is an order to pay a definite sum of money.

(*d*) The payee must be certain and his name must be mentioned in the instrument.

(*e*) It should be signed by the Drawer or the Maker— ile. the Creditor.

(*f*) Usually, there are three parties to Bill—the Drawer the Drawee and the Payee.

Specimen of a Bill of Exchange

Rs. 1,000/- Stamp. Madras-1
1st January, 1978

Three months after date, pay Thiru S. Dilip or order the sum of Rupees One thousand only for value received.

K. KUMAR.

To

Thiru G. Gopu,
Tiruchi-2.

Explanation of important terms relating to a Bill of Exchange :

(1) *Drawing of Bill*:

The creditor (seller) prepares the Bill in the form presented above (Cf. Specimen of Bill of Exchange). This act of preparing the Bill in its complete form with the signature is known as **'Drawing'** a Bill. The creditor is now called the **'Drawer'** of the Bill.

(2) *Parties to a Bill of Exchange*:

(*a*) Drawer ... The One who draws or writes the Bill.
(*b*) Drawee ... The person on whom the Bill is made.
(*c*) Payee ... The person who is entitled to payment of the amount mentioned in the Bill.
(*d*) Acceptor ... The one who accepts the Bill—usually the Drawee accepts the Bill and is referred to as Acceptor.

(3) *Acceptance of a Bill*:

The Bill which has been got ready is sent to the debtor (buyer). He writes the word **'Accepted'** on the face of the Bill and signs, thereby agreeing to pay the amount stated on the Bill on the due date. This is known as **'Acceptance'**. The Bill is binding on the debtor only after he has accepted it. The debtor is now known as **'Acceptor'**. After acceptance, the Bill is returned to the drawer. The Bills said to be a **'Bill Receivable'** to the Drawer and a **'Bill Payable'** to the **Acceptor.**

Illustration

On 1st January, 1977 Ashok sold on credit to Arun for Rs. 500. On the same date Ashok drew a three month's Bill on Arun for Rs. 500, for the value of the goods. Arun accepted it and returned it to Ashok.

In the above illustration, Ashok is the Drawer and the Bill is a 'Bill Receivable' for him. Arun is the Acceptor and the Bill is a 'Bill Payable' for him.

(4) *Due Date of the Bill and Days of Grace :*

The **'Due Date'** of the Bill is the date on which the amount of the Bill must be paid by the acceptor. The due date is ascertained with reference to the period mentioned on the Bill. In the calculation of the due date, three extra days are added to the specified period of the Bill. These three days added to the period of the Bill are known as **'Days of Grace'** and these Days of Grace are intended for the benefit of the acceptor.

Illustration

Date of Bill	*Period of Bill*	*Days of Grace*	*Due Date*
1st January ...	1 month	3	4th February
1st January ...	30 days	3	3rd February
1st January ...	3 months	3	4th April

(5) *Endorsement of Bill :*

A person in possession of a Bill (e. g. the Drawer) may transfer the Bill to another person (e. g. his creditor) in discharge of his debt. Such transfer of Bill is known as **Endorsement**. For the purpose of transfering, the name of the person to whom it is transferred is written on the back of the Bill and signed by the transferor. The one who transfers is known as **'Endorser'** and the one to whom it is transferred is known as **'Endorsee'**.

(6) *Discounting the Bill :*

If the Drawer of the Bill (or anyone in possession of it) is in need of money before the due date of the Bill, he can dis-

count the Bill with a bank. The bank takes the Bill, deducts a small percentage of the amount of the Bill and advances the balance of the amount to the Drawer. The amount so deducted is known as '**Discount**' and the whole process is known as '**Discounting of Bill**'.

Kinds of Bills

Trade Bill :

Trade Bill is one which is drawn in the course of a business transaction to settle an indebtedness arising from such a transaction. Thus a Trade Bill is drawn and accepted for value given or received.

Accommodation Bill :

This is a Bill which is drawn and accepted for helping a person or for mutual assistance and for no valuable consideration.

Demand Bill :

A Bill, which is payable on demand, is called Demand Bill.

Time Bill :

A Bill, which is payable at the expiry of a stated period is called a Time Bill.

Recording of transactions relating to Bills

When a Bill is drawn and accepted :

(1) In the *Drawer's Book* he debits Bills Receivable Account (Bill Receivable comes in) and credits the Acceptor's Account (acceptor is the giver).

Bills Receivable Account	Dr.	...	
To Acceptor's A/c			...

In the *Acceptor's Book* he debits the Drawer (Drawer is the receiver of the Bill) and credits Bills Payable (Bills Payable goes out).

Drawer's A/c	Dr.	...	
To Bills Payable A/c			...

(2) The Drawer of the Bill may deal with the Bill in any one of the following ways :—

(*a*) *He may retain the Bill till the due date.*

In this case no entry need be passed for retaining the Bill. The entry for drawing and accepting the Bill will remain in the books.

(*b*) *He may endorse it to a creditor in payment of a debt.*

The drawer may hand over the Bill to his creditor in part or full payment of a debt due from him (drawer), the effect being that the Bill Receivable goes out, and the creditor is the receiver.

Creditor's A/c	...	Dr.	...
To Bills Receivable A/c	...		...

No entry need be passed in this case in the books of the Acceptor as this transaction does not affect him.

(*c*) *He may discount the Bill with the bankers before the due date.*

In this case the Drawer hands over the Bill to the banker and gets cash for the same. However the amount received will be less than the amount of the Bill depending on the discount charged by the bank.

Bank A/c	Dr. (with the amount received)
Discount A/c	Dr. (discount charged by bank)
To Bills Receivable A/c	(Amount of the Bill)

Note :

The 'Bank A/c.' is debited since the banker does not make the payment in cash but enters it in the 'Drawer's Bank A/c'.

The discount charged by the bank will be calculated with reference to the period of the Bill to mature and the rate of interest charged by the bank. E.g. If a Bill of Rs. 1,000 due after

2 months is discounted with the bank at 6% per annum, the discount charged will be calculated as follows :

$$1000 \times \frac{6}{100} \times \frac{2}{12} = \text{Rs. } 10$$

There will be no entry in the books of the Acceptor, when the Bill is discounted by the drawer, as the transaction does not affect him.

(*d*) *He may send the Bill to his bankers for collection.*

If the Drawer does not endorse or discount the Bill, he may send it to his banker for collection. In this case an account called 'Bank A/c for Collection of Bills' is opened.

Entry will be

Bank A/c for Collection of Bills	Dr.	...	
To Bills Receivable A/c			...

When the banker intimates collection of the Bill the following entry will be passed.

Bank A/c	Dr.	...	
To Bank A/c for Collection of Bills A/c			...

The balance in the 'Bank A/c for collection of Bills' will denote the Bills lying with the banker still not collected.

No entry need be passed in the Acceptor's Books when the Bill is sent for collection. However when the Bill is collected the acceptor passes the payment entry, since he would have paid the Bill on presentation by the bank on behalf of the drawer.

Entries when the Bill is honoured (met) on the Due Date :

(1) **If the Bill is presented by the drawer (where he retains it till the due date)**

Drawer's books			*Acceptor's books*		
Cash A/c Dr.	...		Bills Payable A/c Dr.	...	
To Bills Receivable A/c		...	To Cash A/c		...

The Drawer Debits Cash A/c since cash 'comes in' and credits Bill Receivable A/c since Bill Receivable 'goes out'.

The Acceptor debits 'Bills Payable A/c which comes in and credits Cash A/c since it goes out.

(2) If the Bill is presented by the endorsee (where the drawer had endorsed the Bill)

Drawer's books	*Acceptor's books*		
No entry	Bills Payable A/c Dr.	...	
	To Cash A/c		...

(3) **If the Bill is presended by the banker (where the drawer had discounted it with the bank)**

Drawer's books	*Acceptor's books*		
No entry	Bills Payable A/c **Dr.**	...	
	To Cash A/c		...

(4) If the Bill sent to the Bank for Collection is collected

Drawer's books				*Acceptor's books*			
Bank A/c	Dr.	...		Bills Payable A/c	Dr.	...	
To Bank A/c for Collection of Bills A/c			...	To Cash A/c			...

It will be noted that the entry in the Acceptor's book on payment of the Bill is the same irrespective of whether the Bill is presented by the drawer, endorsee or the banker. No entry is passed in the Drawer's Books on payment of the Bill which had been discounted or endorsed since the payment will not be received by him.

Entries on Dishonour of the Bill

Failure by the Acceptor to pay the Bill on the maturity date is called Dishonour of the Bill.

(1) If the Bill is presented for payment by the Drawer (where the Bill was retained by him)

Drawer's books				*Acceptor's books*			
Acceptor's A/c	Dr.	...		Bills Payable A/c	Dr.	...	
To Bills Receivable A/c			...	To Drawer's A/c			...

(2) If the Bill is presented for payment by the Endorsee (where the Bill was endorsed by the Drawer.

Drawer's books			*Acceptor's books*		
Acceptor's A/c Dr.	...		Bills Payable A/c Dr.	...	
To Endorsee's A/c		...	To Drawer's A/c		...

(3) If the Bill is presented for payment by the bank (where the bill was discounted by the Drawer)

Drawer's books			*Acceptor's books*		
Acceptor's A/c Dr.	...		Bills Payable A/c Dr.	...	
To Bank A/c		...	To Drawer's A/c		...

(4) If the Bill is presented for payment by the banker to whom the Drawer had sent it for collection

Drawer's books			*Acceptor's books*		
Acceptor's A/c Dr.	...		Bills Payable A/c Dr.	...	
To Bank A/c for Collection of Bills		...	To Drawer's A/c		...

It will be seen that in all cases of dishonour the entry in the books of the acceptor is the same, namely,

Bills Payable A/c Dr.	...	
To Drawer's A/c		...

This entry has the effect of cancelling the original entry in the Acceptor's Books when the Bill was accepted.

In the Books of the Drawer in all cases of dishonour,

'Debit the *Acceptor*'

Credit *Bill Receivable* A/c (if the Bill is with the Drawer)

Credit *Endorsee's* A/c (if the Bill is with the Endorsee)

Credit *Bank A/c* (if the Bill had been discounted and is with the bank.)

Credit *Bank A/c for Collection of Bills* (if the Bill had been sent to bank for collection)

Illustration-1

Ram drew a Bill on Shyam on 1st January, 1977 for 3 months for Rs. 1,000. Shyam accepted the same and returned it to Ram. Pass Journal entries in the books up to date assuming that on the due date.

(1) the Bill is met.

(2) the Bill is dishonoured.

Ram's books

1977		Rs.	Rs.
Jan. 1	Bills Receivable A/c Dr.	1,000	
	To Shyam A/c		1,000
	(Bill drawn on Shyam)		

Shyam's books

1977		Rs.	Rs.
Jan. 1	Ram A/c Dr.	1,000	
	To Bills Payable A/c		1,000
	(Being Ram's Bill accepted)		

Date	Particulars		Dr.	Cr.
Apr. 4	Cash A/c	Dr.	1,000	
	To Bills Receivable A/c			1,000
	(Bill realised on the due date)			
Apr. 4	Shyam A/c	Dr.	1,000	
	To Bills Receivable A/c			1,000
	(Bill dishonoured)			

Date	Particulars		Dr.	Cr.
Apr. 4	Bills Payable A/c	Dr.	1,000	
	To Cash A/c			1,000
	(Bill met on the due date)			
Apr. 4	Bills Payable A/c	Dr.	1,000	
	To Ram A/c			1,000
	(Bill dishonoured)			

Illustration-2

Ram drew a Bill on Shyam on 1st January, 1977 for 3 months for Rs. 1,000. Shyam accepted the same and returned it to Ram who endorsed it to John on 15th January, 1977. **Pass entries in the books** of Ram and Shyam assuming that on the due date

(1) the Bill is met on the due date;

(2) the Bill is dishonoured on the due date.

Ram's books

1977			Rs.	Rs.
Jan. 1	Bill Receivable A/c	Dr.	1,000	
	To Shyam A/c			1,000
	(Bill drawn on Shyam)			

Shyam's books

1977			Rs.	Rs.
Jan. 1	Ram A/c	Dr.	1,000	
	To Bills Payable A/c			1,000
	(Ram's Bill accepted)			

Date	Particulars		Rs.	Rs.
1977				
Jan. 15	John A/c	Dr.	1,000	
	To Bills Receivable A/c			1,000
	(Bill endorsed to John)			
Apr. 4	No entry			
Apr. 4	Shyam A/c	Dr.	1,000	
	To John A/c			1,000
	(Bill dishonoured)			

Date	Particulars		Rs.	Rs.
1977				
Jan. 15	No entry			
Apr. 4	Bills Payable A/c	Dr.	1,000	
	To Cash A/c			1,000
	(Ram's Bill honoured)			
Apr. 4	Bills Payable A/c	Dr.	1.000	
	To Ram A/c			1,000
	(Bill dishonoured)			

Note:

If the Bill is taken up by Ram (i.e. John is paid by him on dishonour by Shyam) the following **entry** will be passed:

Date	Particulars		Rs.	Rs.
1977				
Apr. 4	John A/c	Dr.	1,000	
	To Cash A/c			1,000
	(Being John paid)			

Date	Particulars	Rs.	Rs.
1977			
Apr. 4	No entry		

Illustration-3

Ram drew a Bill on Shyam on 1st January, 1977 for Rs. 1,000 for 3 months. Shyam accepted the same and returned it to Ram who discounted the same with his bankers on 1st February, 1977 at 9% per annum. Pass entries in the books of both the parties assuming that on the due date,

(1) the Bill is met;

(2) the Bill is dishonoured.

Ram's books

1977		Rs.	Rs.
Jan. 1	Bills Receivable A/c Dr.	1,000	
	To Shyam A/c		1,000
	(Bill drawn)		
Feb. 1	Bank A/c Dr.	985	
	Discount A/c Dr.	15	
	To Bills Receivable A/c		1,000
	(Bill discounted)		

Shyam's books

1977		Rs.	Rs.
Jan. 1	Ram A/c Dr.	1000	
	To Bill Payable A/c		1,000
	(Bill accepted)		
Feb. 1	No entrv		

Date	Drawer's books	Dr.	Cr.	Date	Acceptor's books	Dr.	Cr.
1977				**1977**			
Apr. 4	No entry			Apr. 4	Bills Payable A/c Dr.	1,000	
					To Cash A/c		1,000
					(Bill paid on the due date)		
Apr. 4	Shyam A/c Dr.	1.000		Apr. 4	Bills Payable Alc Dr.	1,C00	
	To Bank A/c		1,000		To Ram A/c		1,000
	(Bill dishononred)				(Bill dishonoured)		

Retiring a Bill under Discount

Sometimes the Acceptor is prepared to pay the Bill before the date of maturity. In such a case the Drawer may allow him a concession called a '**Rebate**' or '**Discount**' at a certain rate calculated on the unexpired period of the maturity of the Bill. This discount is a gain to the Acceptor and a loss to the Drawer. The entry will be

In the Drawer's books				*In the Acceptor's books*			
Cash A/c	Dr.	...		Bills Payable A/c	Dr.	...	
Discount A/c	Dr.	...		To Cash A/c			...
To Bills Receivable A/c			...	,, Discount A/c			...

Noting Charges

When a Bill is dishonoured the holder can get such fact noted on the Bill by a Notary Public. Such noting would constitute sufficient proof of the dishonour. The fact of the dishonour, the date of dishonour and the reasons for dishonour are noted. For this the Notary Public charges a fee called **'Noting Charges'** which though paid by the holder can be recovered from the Acceptor. **A Notary Public** is an official appointed by the Government.

The following are entries in the Drawer's books under different circumstances :

If Noting Charges are paid by the Drawer :

Acceptor A/c	Dr.	...	
To Bank A/c			...

If Noting Charges are paid by the Endorsee :

Acceptor A/c	Dr.	...	
To Endorsee A/c			...

If Noting Charges are paid by the Bank :

Acceptor A/c	Dr.	...	
To Bank A/c			...

If the Bill had been sent for collection and dishonoured, the Noting Charges will not be paid by the Bank, but by the Drawer on advice by the banker. In this case the entry will be the same as Noting Charges paid by the Drawer.

Entry in the acceptor's books

Noting charges A/c	Dr.	...	
To Drawer's A/c			...

(The above entry will be passed in all cases irrespective of whether it is paid by the Drawer, Endorsee or Banker.)

Illustration-4

Gopal draws a Bill on Ganesh for Rs. 1,000 for 2 months on 1st April, 1977. Ganesh accepts the same and returns it to Gopal who discounts the same for Rs. 990. On the due date the Bill is dishonoured, and the Banker pays Rs. 5 as Noting Charges. Journalise.

Gopal's books

Date	Particulars	Rs.	Rs.
1977			
Apr. 1	Bill Receivable A/c Dr.	1,000	
	To Ganesh A/c		1,000
	(Bill drawn on Ganesh)		
Apr. 1	Bank A/c Dr.	990	
	Discount A/c Dr.	10	
	To Bill Receivable A/c		1,000
	(Bill discounted)		

Ganesh's books

Date	Particulars	Rs.	Rs.
1977			
Apr. 1	Gopal A/c Dr.	1,000	
	To Bill Payable A/c		1,000
	(Bill accepted)		
Apr, 1	No entry		

1977			Rs.	Rs.
June 4	Ganesh A/c	Dr.	1,000	
	To Bank A/c			1,000
	(Bill dishonoured)			
	Ganesh A/c	Dr.	5	
	To Bank A/c			5
	(Noting Charges paid by Bank)			

1977			Rs.	Rs.
June 4	Bills Payable A/c	Dr.	1,000	
	To Gopal A/c			1,000
	(Bill dishonoured)			
	Noting Charges A/c	Dr.	5	
	To Gopal A/c			5
	(Noting Charges payable to Gopal)			

Note :

The last two entries may be Combined to get the following entry :

Ganesh A/c	Dr.	1,005	
To Bank			1,005

Bills Payable A/c	Dr.	1,000	
Noting charges A/c	Dr.	5	
To Gopal A/c			1,005

Renewal of a Bill

An acceptor who dishonours a Bill runs the risk of losing his prestige and credit worthiness. Therefore an acceptor who is unable to pay the Bill, due to temporary financial difficulties, may approach the drawer and request him to cancel the old Bill and draw a new one for an extended period. Sometimes he makes a part payment and accepts a new Bill for the balance due. For extension of the term of payment the acceptor has to pay interest on the amount due to the drawer. The interest may be paid in cash or may be added to the amount of the new Bill. **The cancellation of the old Bill by mutual agreement and drawing a new Bill on the Acceptor is called Renewal of a Bill.**

Entries

Drawer's books			*Acceptor's books*		

(1) Entry for cancellation of the old Bill :

The entry in both the books will be the same as in the case of Dishonour of the Bill.

(2) (*a*) If interest is included with the Bill amount.

Drawer's books			Acceptor's books		
Acceptor's A/c	Dr. ...		Interest A/c	Dr. ...	
To Interest A/c		...	To Drawer's A/c		...
(For Interest receivable)			(For Interest payable)		

(*b*) if interest is paid in cash, the entry will be as follows :

Drawer's books			Acceptor's books		
Cash A/c	Dr. ...		Drawer's A/c	Dr. ...	
To Acceptor's A/c		...	To Cash A/c		...

(3) Entry for the New Bill drawn :

Drawer's books			Acceptor's books		
Bills Receivable A/c	Dr. ...		Drawer's A/c	Dr. ...	
To Acceptor's A/c		...	To Bill Payable A/c		...

The amount for the last entry will be the balance due plus interest (if interest has not been received in cash) and the balance due only (if interest has been received in cash).

Note :

The interest will be calculated with reference to the rate charged on the balance amount for the period of the new Bill.

Illustration-5

On 1st August, 1970, *X* sold Rs. 500 worth of goods to *Y*, and drew a Bill on him for the amount for 3 months. *Y* accepted the same. On the due date *Y* being unable to pay the Bill approached *X* and requested him to renew the Bill for a further period of 2 months, together with interest at 6% per annum. *X* agreed to the proposal. On the due date the second Bill is met. Pass the necessary journal entries.

X's Books

Date	Particulars	Rs.	Rs.
1970			
Aug. 1	Y A/c Dr.	500	
	To Sales A/c		500
	(Sales to *Y*)		
	Bill Receivable A/c Dr.	500	
	To *Y*		500
	(Bill drawn on *Y*)		

Y's Books

Date	Particulars	Rs.	Rs.
1970			
Aug. 1	Purchases A/c Dr.	500	
	To *X* A/c		500
	(Purchases from *X*)		
	X A/c Dr.	500	
	To Bill Payable A/c		500
	(Bill accepted)		

Date	Particulars		Rs.	Rs.
1970				
Nov. 4	*Y* A/c	Dr.	500	
	To Bill Receivable A/c			500
	(Bill cancelled)			
	Y A/c	Dr.	5	
	To Interest A/c			5
	(Interest receivable)			
	Bill Receivable A/c	Dr.	505	
	To *Y* A/c			505
	(New Bill drawn for balance plus interest)			
1971				
Jan. 7	Cash A/c	Dr.	505	
	To Bill Receivable A/c			505
	(Bill realised)			

Date	Particulars		Rs.	Rs.
1970				
Nov. 4	Bill Payable A/c	Dr.	500	
	To *X*			500
	(Bill cancelled)			
	Interest A/c	Dr.	5	
	To *X* A/c			5
	(Interest payable)			
	X A/c	Dr.	505	
	To Bill Payable A/c			505
	(New Bill accepted for balance plus interest)			
1971				
Jan. 7	Bill Payable A/c	Dr.	505	
	To Cash A/c			505
	(Bill paid)			

Illustration-6

Assume in Ex-5 that interest is received in cash and give necessary Journal entries.

In this case the entries upto the stage of cancellation of the old Bill will be the same in both the books. The remaining entries will be as follows :—

X's books

Date	Particulars		Rs.	Rs.
1970 Nov. 4	Cash A/c	Dr.	5	
	To Interest A/c			5
	(Interest received)			
	Bill Receivable A/c	Dr.	500	
	To Y			500
	(New Bill drawn for the amount due)			
1971 Jan. 7	Cash A/c	Dr.	500	
	To Bill Receivable A/c			500
	(Bill realised)			

Y's books

Date	Particulars		Rs.	Rs.
1970 Nov. 4	Interest A/c	Dr.	5	
	To Cash A/c			5
	(Interest paid)			
	X A/c	Dr.	500	
	To Bill Payable A/c			500
	(New Bill accepted)			
1971 Jan. 7	Bill Payable A/c	Dr.	500	
	To Cash A/c			500
	(Being Bill paid)			

Illustration-7

On 1st January, 1970, *A* drew a Bill on *B* for Rs. 1,000 for 2 months. *B* accepted the same. Before the due date *B* finding himself unable to pay the Bill, approaches *A* and offers him Rs. 600 in cash and requests him to draw a fresh Bill for the balance together with interest at 6% per annum, for 2 months. *A* agrees to the proposal. The new Bill is discounted with the Bank for Rs. 398. On the due date this Bill is met. Journalise.

A's books

Date	Particulars		Rs.	Rs.
1970 Jan. 1	Bills Receivable A/c	Dr.	1,000	
	To B A/c			1,000
	(Bill drawn on *B*)			
1970 Mar. 4	*B* A/c	Dr.	1,000	
	To Bills Receivable A/c			1,000
	(Bill cancelled)			
Mar. 4	Cash A/c	Dr.	600	
	To *B* A/c			600
	(Being cash received)			

B's books

Date	Particulars		Rs.	Rs.
1970 Jan. 1	*A* A/c	Dr.	1,000	
	To Bills Payable A/c			1,000
	(Bill accepted)			
Mar. 4	Bills Payable A/c	Dr.	1,000	
	To *A* A/c			1,000
	(Bill cancelled)			
Mar. 4	*A* A/c	Dr	600	
	To Cash A/c			600
	(Cash paid)			

1970			Rs.	Rs.
Mar 4	*B* A/c	Dr.	4	
	To Interest A/c			4
	(Interest receivable)			
	Bills Receivable A/c	Dr.	404	
	To *B* A/c.			404
	(New Bill drawn for the balance plus interest)			
	Bank A/c	Dr.	398	
	Discount A/c		6	
	To Bills Receivable A/c			404
	(Bill discounted)			
May 7	No entry			

1970			Rs.	Rs.
Mar. 4	Interest A/c	Dr.	4	
	To *A* A/c			4
	(Interest Payable)			
	A A/c	Dr.	404	
	To Bills Payable A/c			404
	(New Bill accepted for balance plus interest)			
	No entry			
May 7	Bills Payable A/c	Dr.	404	
	To Cash A/c			404
	(Bill paid)			

Illustration-8

On 1st June, 1972 Mohan sold goods to Mahesh for Rs. 2,000 and drew a Bill on him for the amount for 2 months. After securing Mahesh's acceptance the Bill was discounted for Rs. 1,960. On the due date the Bill was dishonoured, the banker paying Rs. 10 Noting Charges. Mahesh paid Mohan Rs. 800 and requested him to draw a new Bill for the balance plus Rs. 20 interest for 2 months. Mohan agrees to the same. On the due date the second Bill is dishonoured and Mohan paid Rs 5 Noting Charges. Journalise.

Mohan's books

1972			Rs.	Rs.
July 1	Mahesh A/c	Dr.	2,000	
	To Sales A/c			2,000
	(Sales to Mahesh)			
	Bill Receivable A/c	Dr.	2,000	
	To Mahesh A/c			2,000
	(Bill drawn)			
	Bank A/c	Dr.	1,960	
	Discount A/c	Dr.	40	
	To Bills Receivable A/c			2,000
	(Bill discounted)			

Mahesh's books

1972			Rs.	Rs.
July 1	Purchases A/c	Dr.	2,000	
	To Mohan A/c			2,000
	(Purchases from Mohan)			
	Mohan A/c	Dr.	2,000	
	To Bills Payable A/c			2,000
	(Bill accepted)			
	No entry			

Date	Particulars		Rs.	Rs.
1972 Aug. 4	Mahesh A/c	Dr.	2,010	
	To Bank A/c			2,010
	(Bill dishonoured and Noting Cl arges paid			
	Cash A/c	Dr.	800	
	To Mahesh A/c			800
	(Cash received)			
1972 4th Aug.	Mahesh A/c	Dr.	20	
	To Interest A/c			20
	(Interest receivable)			
	Bill Receivable	Dr.	1,230	
	To Mahesh A/c			1,230
	(New Bill drawn for balance due plus interest)			

Date	Particulars		Rs.	Rs.
1972 Aug. 4	Bills Payable A/c	Dr.	2,000	
	Noting charges		10	
	To Mohan A/c			2,010
	(Bill dishonoured and Noting Charges paid)			
	Mohan A/c	Dr.	800	
	To Cash A/c			800
	(Cash paid)			
	Interest A/c	Dr.	20	
	To Mohan A/c			20
	(Interest payable)			
	Mohan A/c	Dr.	1,230	
	To Bill Payable A/c			1,230
	(New Bill accepted)			

Date	Particulars		Dr.	Cr.
1972 Oct. 7	Mahesh A/c	Dr.	1,230	
	To Bill Receivable A/c			1,230
	(Bill dishonoured)			

Date	Particulars		Dr.	Cr.
1972 Oct. 7	Bill Payable A/c.	Dr.	1,230	
	To Mohan A/c			1,230
	(Bill dishonoured)			

Date	Particulars		Dr.	Cr.
1972 Oct. 7	Mahesh A/c	Dr.	5	
	To Cash A/c			5
	(Noting Charges paid)			

Date	Particulars		Dr.	Cr.
1972 Oct. 7	Noting Charges A/c	Dr.	5	
	To Mohan A/c			5
	(Noting Charges payable to Mohan)			

Insolvency of the Acceptor

A person is said to be *insolvent* when his liabilities exceed his assets. When the Acceptor becomes insolvent, the Drawer cannot expect to receive the full amount of the Bill. So he has to treat the Bill as dishonoured and pass the dishonour entry. He will receive only a certain percentage of the amount due to him. The balance amount will be treated as a Bad Debt.

The Acceptor also passes an entry for the dishonour of the Bill. The payment made of a part of the amount due is recorded, the unpaid amount being credited to 'Deficiency Account'.

Drawer's books | *Acceptor's books*

After passing the entry for dishonour in both the books the following entries will be passed :

Drawer's books

Particulars		Dr.	Cr.
Cash A/c	Dr.	...	
Bad Debts A/c.	Dr.	...	
To Acceptor's A/c			...

Acceptor's books

Particulars		Dr.	Cr.
Drawer's A/c	Dr.	...	
To Cash A/c			...
,, Deficiency A/c			...

Illustration-9

On 1st January, 1977 David drew a three months Bill on Dilip for Rs. 1,000 in full settlement of account. After securing Dilip's Acceptance, David discounts the Bill for Rs. 985. On the due date the Bill is dishonoured. Dilip pays Rs. 400 to David and requests him to draw a new Bill for 2 months for the balance plus interest Rs. 20. David complies with the request. On 1st June, 1977 Dilip becomes insolvent and 75 paise in the rupee is received from his estate on 10th June. Journalise and prepare Dilip's A/c in David books.

David's books

		Rs.	Rs.
1977			
Jan. 1 Bill Receivable A/c Dr.		1,C00	
To Dilip A/c			1,000
(Bill drawn)			
Bank A/c	Dr.	985	
Discount A/c	Dr.	15	
To Bill Receivable A/c			1,000
(Bill discounted)			

Dilip's books

		Rs.	Rs.
1977			
Jan. 1 David A/c	Dr.	1,000	
To Bill Payable			1,000
(Bill accepted)			
No entry			

Date	Particulars		Dr.	Cr.
1977				
Apr. 4	Dilip A/c	Dr.	1,000	
	To Bank A/c			1,000
	(Bill dishonoured)			
	Cash A/c	Dr.	400	
	To Dilip A/c			400
	(Cash received)			
	Dilip A/c	Dr.	20	
	To Interest A/c			20
	(Interest receivable)			
	Bill Receivable A/c	Dr.	620	
	To Dilip A/c			620
	(New Bill drawn)			

Date	Particulars		Dr.	Cr.
1977				
Apr. 4	Bill payable A/c	Dr	1,000	
	To David A/c			1,000
	(Bill dishonoured)			
	David A/c	Dr.	400	
	To Cash A/c			400
	(Cash paid)			
	Interest A/c	Dr.	20	
	To David A/c			20
	(interest payable)			
Apr. 4	David A/c	Dr.	620	
	To Bill payable			620
	(New Bill accepted)			

1977			Rs.	Rs.
June 1	Dilip A/c	Dr.	620	
	To Bills Receivable A/c			620
	(Bill dishonoured)			
June 10	Cash A/c	Dr.	465	
	Bad Debts A/c	Dr.	165	
	To Dilip A/c			
	(Being 75 paise in the rupee received)			620

1977			Rs.	Rs.
June 1	Bill Payable A/c	Dr.	620	
	To David A/c			620
	(Bill dishonoured)			
June 10	David A/c	Dr.	620	
	To Cash A/c			
	,, Deficiency A/c			465
	(75 paise in the rupee paid)			155

In David's Books

DILIP'S A/c.

1977		Rs.	1977		Rs.
Jan 1	To Balance b/d	1,000	Jan 1	By Bills Receivable A/c	1,000
April 5	,, Bank A/c	1,000	Apr 4	,, Cash A/c	400
	,, Interest A/c	20		,, Bills Receivable A/c	620
June 1	,, Bills Receivable A/c	620	Jun 10	,, Cash A/c	465
				,, Bad Debts A/c	155
		2,640			2,640

Accommodation Bills

Bills of Exchange are drawn and accepted to settle obligations arising from business transactions. Accommodation Bills on the other hand do not result from a business transaction but are employed to raise money on the strength of the credit standing and name of the parties. Temporary finance is raised by discounting these Bills with the banker. The amount received by the Drawer helps him to tide over his temporary financial difficulties. Before the due date he pays the amount to the Acceptor to enable him to meet the Bill. Sometimes after discounting the Bill, the Drawer pays a part of the amount received to the Acceptor. In such a case the balance amount is paid before the due date to enable the Acceptor to meet the Bill. Thus an Accommodation Bill may be drawn for the accommodation of one party or for the mutual accommodation of both the parties.

Sometimes instead of one party drawing a Bill on the other, both may draw Bills on one another, get them discounted and pay their respective Acceptances on the due date. Since these Bills are accepted without consideration, the Acceptor has no liability to the drawer but since the banker (a third party) takes such a Bill for value, the acceptor is liable to the third party. An accommodation Bill is also called a '**Kite**'.

The Book-keeping entries for Accommodation Bills are similar to that of Trade bills. However the treatment of '**Discounts**' should be noted. If the amount realised by discounting the Bill is used entirely by the Drawer, the full discount will be borne by him. If the amount realised is shared with the Acceptor, the discount also will be shared in the same proportion

Illustration-10

On 15th May, Ramu accepted a 2 month's Bill for Rs. 2,000 for the accommodation of the Drawer, Raghu. The Bill was discounted by Raghu for Rs 1,980. On the due date, Raghu paid Ramu the amount due and the Bill was met. Journalise.

Raghu's books

Date	Particulars		Rs.	Rs.
May 15	Bills Receivable A/c	Dr.	2,000	
	To Ramu A/c			2,000
	(Bill drawn)			
May 15	Bank A/c	Dr.	1,980	
	Discount A/c	Dr.	20	
	To Bills Receivable A/c			2,000
	(Bill Discounted)			

Ramu's books

Date	Particulars		Rs.	Rs.
May 15	Raghu A/c	Dr.	2,000	
	To Bill Payable A/c			2,000
	(Bill accepted)			
	No entry			

Date	Particulars		Rs.	Rs.
July 18	Ramu A/c	Dr.	2,000	
	To Cash A/c			2,000
	(Amount paid to Ramu)			

Date	Particulars		Rs.	Rs.
July 18	Cash A/c	Dr.	2,000	
	To Raghu A/c			2,000
	(Amount received)			
July 18	Bill Payable A/c	Dr.	2,000	
	To Cash A/c			2,000
	(Bill paid)			

Illustration-11

On 2nd October 1976, *X* drew a Bill for one month on *Y* for Rs. 1,000 for mutual accommodation. After securing *Y*'s acceptance the Bill was discounted for Rs. 990. *X* immediately paid half the proceeds to *Y*. On the due date *X* paid *Y* the balance amount and *Y* met the Bill. Journalise.

X's books

Date	Particulars		Rs.	Rs
1976				
Oct. 2	Bill Receivable A/c	Dr.	1,000	
	To *Y* A/c			1,000
	(Bill drawn)			

Y's books

Date	Particulars		Rs.	Rs.
1976				
Oct. 2	*X* A/c	Dr.	1,000	
	To Bills Payable A/c			1,000
	(Bill accepted)			

Date	Particulars		Rs.	Rs.
1976				
Oct 2	Bank A/c	Dr.	990	
	Discount A/c	Dr.	10	
	To Bill Receivable A/c			1,000
	(Bill discounted)			
	Y A/c	Dr.	500	
	To Cash A/c			495
	,, Discount A/c			5
	(Half the proceeds paid to *Y*)			
Nov 5	*Y* A/c	Dr.	500	
	To Cash A/c			500
	(Balance amount paid)			
	No entry			

Date	Particulars		Rs.	Rs.
	No entry			
	Cash A/c	Dr.	495	
	Discount A/c	Dr.	5	
	To *X* A/c			500
	(Half the proceeds received from *X*)			
Nov. 5	Cash A/c	Dr.	500	
	To *X* A/c			500
	(Balance amount received)			
	Bills Payable A/c	Dr.	1,000	
	To Cash A/c			1,000
	(Bill met on due date)			

Illustration-12

For mutual accommodation of both the parties *A* drew a Bill on *B* for Rs. 1,000 on 1st February, 1977 for 3 months. *B* accepted the same and returned it to *A* who discounted it for Rs. 950 and remitted half the proceeds to B, agreeing to send the other half before the date. *A* failed to send the amount on the due date. *B* paid the banker and drew a new Bill on *A* for the amount due plus Rs. 5 interest for 2 months. This Bill was met on the due date. Journalise and prepare *A*'s A/c in *B*'s Books.

A's Books

Date	Particulars		Rs.	Rs.
1977				
Feb. 1	Bill Receivable A/c	Dr.	1,000	
	To *B* A/c			1,000
	(Bill drawn)			
	Bank A/c	Dr	950	
	Discount A/c	Dr.	50	
	To Bills Receivable A/c			1,000
	(Bill discounted)			

B's Books

Date	Particulars		Rs.	Rs.
1977				
Feb. 1	*A* A/c	Dr.	1,000	
	To Bills Payable A/c			1,000
	(Bill accepted)			
	No entry			

Date	Particulars		Rs.	Rs.
1977 Feb. 1	*B* A/c	Dr.	500	
	To Cash A/c			475
	,, Discount A/c			25
	(Half the proceeds paid)			
1977 May 4	No entry			
	Interest A/c	Dr.	5	
	To B A/c			5
	(Interest payable)			
	B A/c	Dr.	505	
	To Bills Payable A/c			505
	(New Bill accepted for Balance plus interest)			

Date	Particulars		Rs.	Rs.
1977 Feb. 1	Cash A/c	Dr.	475	
	Discount A/c	Dr.	25	
	To *A* A/c			500
	(Half the proceeds received)			
1977 May 4	Bills Payable A/c	Dr.	1,000	
	To Cash A/c			1,000
	(Bill paid on due date)			
	B A/c Dr.	Dr.	5	
	To Interest A/c			5
	(Being interest receivable)			
	Bills Receivable A/c	Dr.	505	
	To *B* A/c			505
	(New Bill drawn for balance plus interest)			

Date	Particulars		Rs.	Rs.
1977				
July 7	Bills Payable A/c	Dr.	505	
	To Cash A/c			505
	(Bill paid on due date)			

Date	Particulars		Rs.	Rs.
1977				
July 7	Cash A/c	Dr.	505	
	To Bills Receivable A/c			505
	(Bill realised on due date)			

In B's books

A's Account

Date	Particulars	Rs.	Date	Particulars	Rs.
Feb. 1	To Bills Payable A/c	1,000	Feb. 1	By Cash A/c	475
May 4	,, Interest A/c	5		,, Discount A/c	25
			May 4	,, Bills Receivable A/c	505
		1,005			1,005

Illustration-13

On 1st Oct. 1976 *A* drew a 1 month Bill on *B* for Rs. 800 and *B* drew a 1 month Bill on *A* for a similar amount. Both the Bills were discounted, the banker charging Rs. 10 discount in each case. On the due dates, the parties met their respective Acceptances. Journalise.

A's books

Date	Particulars		Rs.	Rs.
1976				
Oct. 1	Bills Receivable A/c	Dr.	800	
	To *B* A/c			800
	(Bill drawn on B)			

B's books

Date	Particulars		Rs.	Rs.
1976				
Oct 1	*A* A/c	Dr.	800	
	To Bills Payable A/c			800
	(Bill accepted)			

Date	Particulars		Rs.	Rs.
1976				
Oct. 1	Bank A/c	Dr.	790	
	Discount A/c	Dr.	10	
	To Bills Receivable A/c			800
	(Bill discounted)			
1976				
Oct. 1	B A/c	Dr.	800	
	To Bills Payable A/c			800
	(Bill accepted)			
	No entry			
1976				
Nov. 4	Bills Payable A/c	Dr.	800	
	To Cash A/c			800
	(Acceptance met)			

Date	Particulars			
1976				
Oct. 1	No entry			
	Bill Receivable A/c	Dr.	800	
	To A A/c			800
	(Bill drawn)			
	Bank A/c	Dr.	790	
	Discount A/c		10	
	To Bill Receivable A/c			800
	(Bill discounted)			
1976				
Nov. 4	Bills Payable A/c	Dr.	800	
	To Cash A/c			800
	(Acceptance met)			

Illustration-14

Anand, for the mutual accommodation of himself and Anil, draws upon the latter a Bill at 2 months date for Rs. 1,000 dated 1st January. The Bill is discounted by Anand at 6% per annum and half the proceeds are remitted to Anil.

Anil at the same time draws a 2 month's Bill on Anand for Rs 600 After securing Anand's acceptance, the Bill is discounted at 6% per annum by Anil who remits half the proceeds to Anand. Anil becomes bankrupt on 31st March and 50 paise in the rupee is received on 15th April as first and final dividend. Journalise and prepare the personal accounts in the Books of both the parties.

Anand's books

		Rs.	Rs.
Jan. 1	Bills Receivable A/c Dr.	1,000	
	To Anil A/c		1,000
	(Bill drawn)		
	Bank A/c Dr.	990	
	Discount A/c Dr.	10	
	To Bills Receivable		1,000
	(Bill discounted)		

Anil's books

Jan. 1	Anand A/c Dr.	1,000	
	To Bill Payable A/c		1,000
	(Bill accepted)		

No entry

Date	Particulars		Rs.	Rs.
Jan. 1	Anil A/c	Dr.	500	
	To Cash A/c			495
	To discount A/c			5
	(Half the proceeds paid)			
	Anil A/c	Dr.	600	
	To Bill Payable A/c			600
	(Bill accepted)			
	Cash A/c	Dr.	297	
	Discount A/c		3	
	To Anil A/c			300
	(Half the proceeds received)			

Date	Particulars		Rs.	Rs.
Jan 1	Cash A/c	Dr.	495	
	Discount A/c	Dr.	5	
	To Anand A/c			500
	(Half the proceeds received)			
	Bill Receivable A/c	Dr.	600	
	To Anand A/c			600
	(Bill drawn)			
	Bank A/c	Dr.	594	
	Discount A/c	Dr.	6	
	To Bill Receivable A/c			600
	(Bill discounted)			
	Anand A/c	Dr.	300	
	To Cash A/c			297
	,, Discount A/c			3
	(Half the proceeds paid)			

Particulars		Dr.	Cr.	Particulars		Dr.	Cr.
Mar. 4 Bills Payable A/c	Dr.	600		No entry			
To Cash A/c			600				
Our Acceptance paid)							
Anil A/c	Dr.	1,000		Mar 4 Bills Payable A/c	Dr.	1,000	
To Bank A/c			1,000	To Anand A/c			1,000
(Anil's acceptance dishonoured)				(Bill dishonoured)			
Apr. 15 Cash A/c	Dr.	400		Apr 15 Anand A/c	Dr.	800	
Bad Debts A/c	Dr.	400		To Cash A/c			400
To Anil A/c			800	,, Deficiency A/c			400
(Being 50 Baise on the rupee received)				(Being 50 paise in the rupee paid)			

In Anand's Books

Anil Account

		Rs.			Rs.
Jan. 1	To Cash A/c	495	Jan 1	By Bill Payable A/c	1,000
	,, Discount A/c	5		,, Cash A/c	297
	,, Bills Payable A/c	600		,, Discount	3
Mar. 4	,, Bank A/c	1,000	Apr. 15	,, Cash A/c	400
				,, Bad Debts A/c	400
		2,100			2,100

In Anil's Books

Anand A/c

		Rs.			Rs.
Jan. 1	To Bill Payable A/c	1,000	Jan. 1	By Cash A/c	495
	,, Cash A/c	297		,, Discount A/c	5
	,, Discount A/c	3		,, Bill Receivable A/c	600
Apr. 15	,, Cash A/c	400	Mar. 4	,, Bill Payable A/c	1,000
	,, Deficiency A/c	400			
		2,100			2,100

EXERCISE

(1) Objective type questions

(i) *Fill in the blanks* :

(*a*) There are________ parties to a Bill of Exchange.

(*b*) The Drawee of the Bill is the________of the Bill.

(*c*) Days of Grace are________in number.

(ii) Indicate the correct answer in each of the following cases : [Mention : (*a*), (*b*), or (*c*)]

(1) If Jawahar's Acceptance which was endorsed in our favour by Ramesh is dishonoured, the account to be debited is

(*a*) Jawahar

(*b*) Ramesh

(*c*) Bills Receivable

(2) A three-month's Bill drawn on 1st January, 1977 will mature for payment on

(*a*) 3rd April 1977

(*b*) 4th April 1977

(*c*) 5th April 1977.

(2) A Bill for Rs. 2,500 is drawn by Nathan on Mani and accepted by the latter. Show what entries would be passed in the Books of both the parties under each of the following circumstances :

(*a*) If Nathan retains the Bill till the due date and realised it on maturity.

(*b*) If Nathan discounted the Bill with his bankers for Rs. 2,400 and the Bill was dishonoured on the due date.

(*c*) If Nathan endorsed the Bill to Mahesh in settlement of his debt and the Bill is met on maturity.

(*d*) If Nathan had sent the Bill to his banker for collection and was collected.

(3) Kishore having accepted a Bill for Rs. 800 drawn by Lal is unable to meet the same on the due date. He requests Lal to accept Rs. 400 in cash, cancel the old Bill and draw on him a new Bill for the balance plus Rs. 10 interest. Lal agrees to the proposal. On the due date the 2nd Bill is met. Pass entries in the books of Kishore and Lal.

(4) On 1st September, 1975 Prakash sold goods to Pratap for Rs. 800 and drew on him a Bill for the amount at 3 month after date. After seccuring Pratap's Acceptance, Prakash discounted the Bill at 5% per annum On the due date the Bill was dishonoured and the banker paid Rs. 50 as Noting Charges. On 6th December, 1975 Pratap accepted a new Bill at 2 months for Rs. 8,150 including Noting Charges and interest. This Bill was met on the due date. Journalise the above transactions in the books of Prakash and Pratap.

(5) *A* sold goods to B for Rs. 500 and drew a Bill on him for the amount. B accepted the same and returned it to *A* who endorsed it to *C* in settlement of his (*A*'s) debt. *C* discounted the Bill with his banker for Rs. 490. Pass the required entries in the books of *A*, *B* and *C* assuming

(1) the Bill is met on the due date.

(2) the Bill is dishonoured and *A* took it up.

(6) On 1st March, 1977 Kumar sold goods to Abdul for Rs. 2,000 and drew a Bill on him for the amount for 2 months. Abdul accepted the Bill and returned it to Kumar who discounted it with the bank at 6% per annum. On the due date the Bill is dishonoured due to Abdul's insolvency. The banker paid Rs. 10 Noting Charges. Kumar received a first and final dividend of 10 paise in the rupee on 15th May, 1977. Pass Journal entries in the books of Kumar and Abdul.

(7) On 15th September, 1976 *X* sold goods to *Y* for Rs. 1,000 and allowed a trade discount of 5%. *X* drew a Bill on *Y* for the amount due and discounted the same for Rs. 925 with the bank. On the due date the Bill was dishonoured. *X* paid the bank and drew a new Bill on *Y* for Rs. 975 including interest for one month. Before the due date this Bill was retired at a rebate of Rs 5. Pass Journal entries in the books of *X* and *Y* and prepare *Y*'s account in *X*'s books.

(8) On 1st January Raghu supplied goods to Ashok to the value of Rs. 9,000 and settled the account by means of three Bills of exchange for Rs. 3,000 each due after 2 months, 3 months, and 4 months respectively. Raghu discounted the first Bill at a discount of Rs. 60. He held the other Bills.

On maturity the first two Bills were paid. On the due date of maturity of the third Bill, Ashok being unable to pay the Bill requests Raghu to cancel the old Bill, aecept Rs. 40 interest in cash and draw a new Bill for the amount due for one month. Raghu agrees to the same and draws the new Bill. Pass Journal entries in the books of Raghu and Ashok

(9) For the mutual accommodation of *A* and B, *A* draws a three-months' Bill on B for Rs. 1000. Upon acceptance *A* discounts the Bill with his bankers at 4% per annum and remits half the proceeds to *B*. Before the due date, *A* remits Rs. 500 to B, who pays the Bill on maturity. Journasise.

(10) On 1st October, 1969, *A* drew on *B* a 2 months' Bill for Rs, 700 and B drew on *A* a 2 months' Bill for a similar amount. Both the Bills were discounted, the banker charging Rs. 8 for discount in each case. On the duc date both the parties paid their respective Acceptances. Journalise.

(11) On 1st March, 1963 James drew a three months' Bill on John for Rs. 3,000, discounted the same for Rs. 2,950 and paid half the proceeds to John. On the same date John drew a three months' Bill on James for Rs 2,000 and discounted it for Rs. 1,970 and paid half the proceeds to James. On the due date James met his Acceptance, but John failed to pay his Bill due to insolvency. 50 paise in the rupee was received by James from John in first and final settlement of his claim. Journalise and prepare John's Account in James' Books.

CHAPTER XVII

RECTIFICATION OF ERRORS

The term 'Error' in this chapter is taken to mean a mistake that has occurred in the writing up of the Books of Account. In spite of great care taken in recording transactions, occurring of mistakes cannot be completely over-ruled on account of the human element present in the work. The error may occur in the initial recording in the Original Books of Entry or later in the Ledger or at the stage of preparing the Trial Balance. Depending on the nature of errors committed, they affect the arithmetical accuracy of the accounts, contravene the basic principles of Book-Keeping or tend to disturb the nature of Ledger accounts.

Rectification would mean correcting the mistake that has occurred.

Rectifying the Error

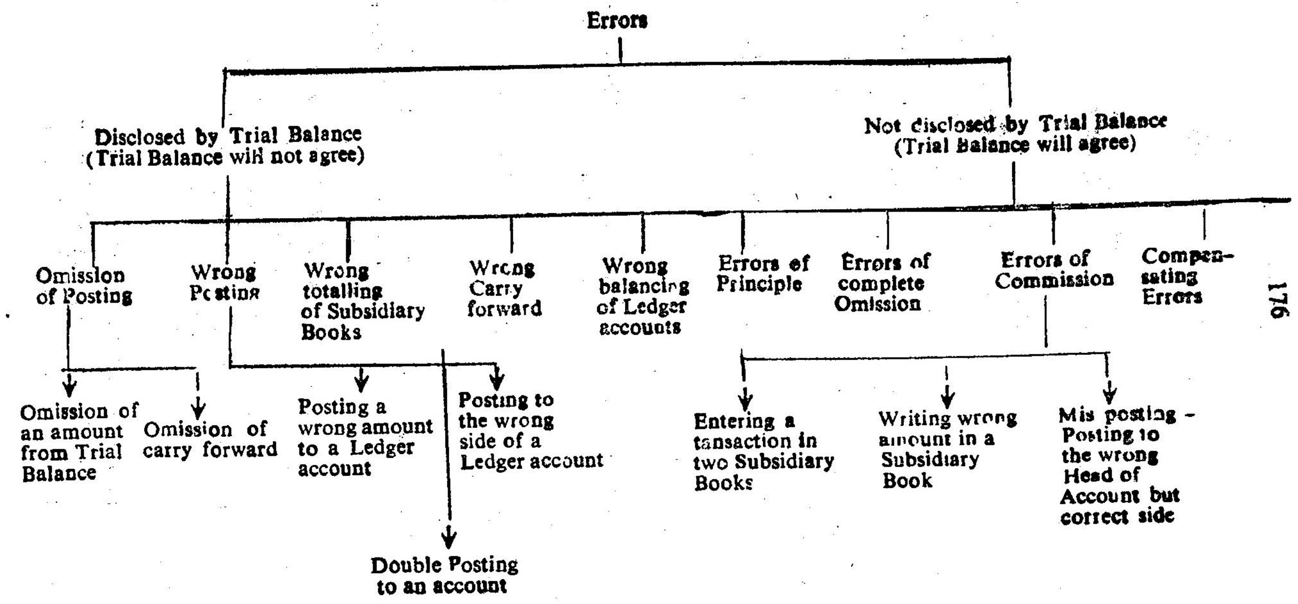
Once the error is located, we should devote our attention to the correction of the error which is also described as Rectification of the Error.

Broadly Speaking, there are two methods of Rectification of Errors. They are:

(1) **Erasing or striking off the wrong entry:** This method is available, theoretically speaking, with reference to Errors of Commission. But, in practice, this method is not at all advisable because it helps perpetration of fraud. It is also objectionable because it affects the legal value of the books of Account and makes them appear clumsy. Besides, it is complicated because often correction of one mistake will necessitate erasion in different sets of books. Hence this method is not adopted.

(2) **Making appropriate entries to correct the errors:** This method is applicable to Errors of Omission, Commission or Principle. If the omission is partial, the entry left out is made.

Chart showing various types of Errors



If the error is one of Commission, rectification is made either by additional entry or by opposite entry taking into account the nature of the error.

The above method is scientific and hence preferred to the first method. It is based on the principle that the effect of a credit entry made in an Account is reduced by means of an entry made on the debit side of the same Account and the effect of a credit entry made in an Account is increased by means of an additional entry on the credit side of the same account.

Procedure for Rectification

The following three steps may usefully be adopted while attempting to rectify an error :

(1) Ascertain what has actually been done, i.e. what is the error.

(2) Make sure what ought to have been done, i. e. the correct record.

(3) Decide what is to be done in view of what has been done and what ought to have been done, i. e. Rectification.

Certain errors affect only one side of an Account. These one sided errors do not require journal entries for rectification. In the case of such errors what is to be done is (*a*) either to make an entry on the debit side of an Account to increase the debit value or to reduce the credit value of the Account or (*b*) to make an entry on the credit side of an Account to increase the credit value or to reduce the debit value of the Account.

There are other errors which affect both the accounts found in a transaction. These two-sided errors can be rectified by appropriate Journal entries designed either to record an omission or to rectify an Error of Commission or an Error of Principle.

Rectification of one-sided errors

ILLUSTRATION I :

Errors of Totalling or Casting :

Rectify the following errors :

(i) Purchases Book is overcast by Rs. 400 (for the month of January).

(ii) Sales Book has been undercast by Rs. 150.

(iii) Purchase Returns Book has been overcast by Rs. 75.

(iv) Sales Returns Book has been undercast by Rs. 30.

Explanation

S. No.	*Nature of mistake*	*Effect of mistake*	*Rectification*
(i)	Overcasting of Purchases Book	Excess debit	Credit the Purchases A/c
(ii)	Undercasting of Sales Book	Under credit	Credit Sales A/c
(iii)	Overcasting of Purchases Returns Book	Excess credit	Debit Purchase Returns A/c
(iv)	Undercasting of Sales Returns Book	Under debit	Give a further debit to Sales Returns A/c

Rectification :

(i) To rectify the error, credit Purchases A/c with Rs. 400

(ii) Credit Sales A/c with Rs. 150.

(iii) Debit Purchase Returns A/c with Rs. 75.

(iv) Debit Sales Returns A/c with Rs. 30.

ILLUSTRATION 11

Errors of carry forward :

This type of error is committed by taking a wrong figure from one end of the page to the beginning of the next page.

(i) A total of Rs. 596 in the Purchases Book has been carried forward as Rs. 695.

(ii) The total of the Sales Book Rs 484 on page 15 was carried forward to page 16 as Rs. 448

(iii) Purchase Returns Book was carried forward as Rs. 1,220 instead of Rs 1,120.

(iv) Sales Book total is carried forward Rs. 150 more

(v) Purchases Book is carried forward Rs. 10 less.

Explanation :

S. No.	*Nature of mistake*	*Effect of mistake*	*Rectification*
(i)	Carrying forward higher amount in Purchases Book	Excess debit	Credit Purchases A/c
(ii)	Carrying forward lower amount in Sales Book	Under Credit	Give further Credit to Sales A/c
(iii)	Carrying forward higher amount in Purchase Returns Book	Excess credit	Debit Purchases Returns A/c
(iv)	Carrying forward higher amount in Sales Book	Excess credit	Debit Sales A/c
(v)	Carrying forward lower amount in Purchases Book	Under debit	Give further debit to Purchases A/c

Rectification.

(i) Credit Purchases A/c with Rs. 99.
(ii) Credit Sales A/c with Rs. 36.
(iii) Debit Purchase Returns A/c with Rs. 100.
(iv) Debit Sales A/c with Rs 150.
(v) Debit Purchases A/c with Rs. 10.

ILLUSTRATION 111

Errors of Posting:

These errors, known as Errors of Commission, may occur as

(a) failure to post to the Personal A/c in the Ledger.

(b) posting a wrong amount on the correct side of the Ledger.

(c) posting the correct amount on the wrong side of the Ledger and

(d) posting a wrong amount on the wrong side of the Ledger.

All these errors affect only one side of the Account.

Rectify the following errors:

(a) Purchases from S. Peter for Rs. 200 has been omitted to be posted to the Personal A/c.

(b) Sales to K. Kumar for Rs. 360 has been posted to his Account as Rs. 630.

(c) Purchases from A. Paul for Rs. 150 has been posted to the debit side of his Account.

(d) Sales to S Sundar for Rs. 420 has been posted to his credit as Rs. 240.

Rectification:

(a) This is an omission to post to the Personal Account. Note that posting must be to the credit of S. Peter's Account.

Hence

Post Rs 200 to the credit of S. Peter's Account

(b) Here Kumar's A/c. has been debited with a wrong amount. i. e. with excess amount. To rectify this error, the excess amount must be credited to his A/c.

Hence

Credit K. Kumar's A/c with Rs. 270.

(c) Purchases from A. Paul must have been posted to the credit of A. Paul's Account. But it has been debited.

Hence

Credit A. Paul's Account with double the amount i. e. Rs. 300.

(d) Sales to S. Sundar must find itself on the debit side of S. Sundar's A/c. But his Account is credited with Rs. 240. Sundar's A/c must show a debit of Rs. 420.

Hence

Debit S. Sundar's A/c with Rs. 420 + 240 i.e., Rs. 660.

Rectification of Errors which affect two or more Accounts:

	Error	*Rectification*
(1)	*Error of Principle:* (e.g.) Purchase of Furniture from Fancy Furniture Mart Rs. 500 was passed through Purchases Book.	Debit the Account which needs to be debited i. e., Furniture A/c Credit the account wrongly debited, i. e., Purchases A/c. *Hence* Furniture A/c Dr. Rs. 500 To Purchases A/c Rs. 500
(2)	*Error of Complete Omission:* (e. g.) A credit purchase of Rs. 2,000 from Ramesh & Co., was omitted to be passed through the Invoice Book.	Here the appropriate Journal entry to record the transaction is to be made. Purchases A/c Dr. Rs. 2,000 To Ramesh & Co., Rs. 2,000

(3) ***Wrong amount recorded in the Subsidiary Book :*** (*a*) (e. g.) A credit purchase of Rs. 2,000 from Ramesh & Co., was recorded in the Purchases Book as Rs. 200.	This error results in excess amount recorded in Purchases A/c as well as in Ramesh & Co's A/c. *Hence* Rs. Rs. Purchases A/c Dr. 1,800 To Ramesh & Co , 1,800
(*b*) A credit purchase of Rs. 2,000 from Ramesh & Co., was entered in the Purchases Book as Rs. 20,000.	This error results in excess amount recorded in Purchases A/c as well as in Ramesh & Co.,'s A/c. Hence reverse the entry. Rs. Rs. Ramesh&Co. A/c Dr. 18,000 To Purchases A/c 18,000

(4) ***Wrong Posting :***

(*a*) Posting correct amount to correct side, but to wrong Account. (e.g.) Goods returned by Rani & Co, Rs. 200 posted to Vani & Co., A/c.	In this transaction, Rani & Co. A/c must be credited. But Vani & Co., A/c has been credited. *Hence* Rs. Rs. Vani & Co., A/c Dr. 200 To Rani & Co., A/c 200
(*b*) Posting to correct side but to wrong A/c. and a wrong amount. (e.g.) Rent paid Rs. 450 for Proprietor's house was debited to Rent A/c as Rs. 540.	Principle is the same as above. Rs. Rs. Drawings A/c Dr. 450 To Rent A/c 450 Besides credit Rent A/c. with Rs. 90 to cancel the wrong debit of Rs. 540 to Rent A/c.

(5) *Recording in a wrong Subsidiary Book:* (e.g.) A credit purchase of goods from Remesh & Co., was passed through the Sales Day Book Rs. 2,000.	This error involves three-fold mistakes : (*a*) Sales A/c is wrongly credited. (*b*) Purchases A/c is omitted to be debited. (*c*) Ramesh & Co., has been wrongly debited.

Hence

		Rs.	Rs.
Sales A/c	Dr	2,000	
Purchases A/c	Dr.	2,000	
To Ramesh & Co., A/c			4,000

Suspense Account

It was mentioned earlier that mistakes which affect one account affect agreement of the Trial Balance. If the errors cannot be located immediately, the difference in the Trial Balance is made good by entering the amount of difference on the lighter side under the heading 'Suspense A/c'.

Suspense Account is a temporary and imaginary account which is closed later when the errors are located.

The artificial tallying of the Trial Balance by the introduction of Suspense A/c enables the Final Accounts to be prepared even before the location of errors. The Suspense A/c balance is shown on the Assets side or on the Liabilities side according as the Suspense A/c balance is debit or credit.

ILLUSTRATION IV

A Book-keeper having failed to agree the Trial Balance, opened a Suspense Account and transferred the difference of Rs. 1,709 to the credit of Suspense A/c. The following errors were later discovered. Give journal entries and show the Suspense Account:

(*a*) Sales Book was undercast by Rs. 2,000.

(b) Purchase of Machinery for Rs. 3,000 was passed through the Purchases Book.

(*c*) Goods sold to Raj for Rs. 45 was posted to his Account as Rs. 54.

(*d*) Purchase Returns Book was overcast by Rs. 200.

(*e*) The total of the Sales Book from page 3 was carried forward as Rs. 1,222 instead of Rs. 1,122.

Rectification Entries (Using Suspense A/c.) :

Note :

In the case of those errors which affect only one account introduce Suspense a/c to make up a Journal entry.

		Rs.	Rs.
(*a*) Suspense A/c	Dr.	2,000	
To Sales A/c			2,000
(Undercasting of Sales rectified)			
(*b*) Machinery A/c	Dr.	3,000	
To Purchase A/c			3,000
Debit to Purchases instead of Machinery A/c rectified)			
(*c*) Suspense A/c	Dr.	9	
To Raj A/c			9
(Excess debit given to Raj rectified)			
(*d*) Purchase Returns A/c	Dr.	200	
To Suspense A/c			200
(Overcasting of Purchase Returns Book rectified.)			
(*e*) Sales A/c	Dr.	100	
To Suspense A/c			100
(Excess carry forward of the total of Sales Book rectified)			

Note: Suspense A/c opens with a credit balance of Rs. 1,709

Suspense A/c

	Rs.		Rs.
To Sales A/c	2,000	By Difference in Books A/c	1,709
„ Raj A/c	9	„ Purchase Returns A/c	200
		„ Sales A/c	100
	2,009		2,009

ILLUSTRATION V

The following errors were discovered in the books of A. John on December 31, 1976:

(*a*) Rectify the errors without opening Suspense A/c.

(*b*) Given that the difference in the Trial Balance Rs. 261 was debited to Suspense A/c., give the journal entries with Suspense A/c.

(*c*) Show the Suspense A/c.

(i) The total of Purchases Book for December had been undercast by Rs. 100.

(ii) Rs. 76 paid for repairing Machinery had been debited to Machinery A/c.

(iii) Cash Rs. 39 received from S. Gosh, though entered in the Cash book had not been posted to Gosh's A/c.

(iv) The Sales Book has been overcast by Rs. 50.

(v) A Sale of Rs. 400 to S. Ram has been passed through the Purchases Book.

(vi) Goods returned by S. Suresh Rs. 75 have been entered in the Returns Outwards Book. However, S. Suresh's A/c is correctly posted.

Rectification without Suspense A/c:			Rs.	Rs.
(1)	Debit Purchase A/c with Rs. 100			
(2)	Machinery Repairs A/c	Dr.	76	
	To Machinery A/c			76
	(Entry to rectify wrong debit to Machinery A/c)			
(3)	Credit S. Gosh's A/c with Rs. 39			
(4)	Debit Sales A/c with Rs. 50			
(5)	S. Ram's A/c	Dr.	800	
	To Sales A/c			400
	,, Purchases A/c			400
	(Entry to rectify wrong entry in Purchases Book)			
(6)	Debit Returns Outwards A/c Rs. 75			
	Debit Returns Inwards A/c Rs. 75			
	(Entry to rectify wrong credit given to Returns Outwards A/c)			

Rectification with Suspense A/c

			Rs.	Rs.
(1)	Purchases A/c	Dr.	100	
	To Suspense A/c			100
	(Rectification of Purchases Book undercast)			
(2)	Machinery Repairs A/c	Dr.	76	
	To Machinery A/c			76
(3)	Suspense A/c	Dr.	39	
	To S. Gosh's A/c			39
	(Completion of double entry for cash received omitted to be posted to Personal A/c)			
(4)	Sales A/c	Dr.	50	
	To Suspense A/c			50
	(Correction of overcasting of Sales Book)			
(5)	The same as under the former method			
(6)	Returns Outwards A/c	Dr.	75	
	Returns Inwards A/c	Dr.	75	
	To Suspense A/c			150
	(Correction of Returns Inwards wrongly credited to Returns Outwards A/c, the Personal A/c being correctly credited)			

Suspense A/c

	Rs.		Rs.
To Difference in Books A/c	261	By Purchases A/c ...	100
„ S. Gosh A/c	39	„ Sales A/c ...	50
		„ Returns Outwards A/c	75
		„ Returns Inwards A/c	75
	300		300

EXERCISE

Objective Type Questions

(1) State which of the following errors will not be revealed by the Trial Balance :

(a) Errors of Complete Omission.

(b) Wrong balancing of an Account.

(c) Wrong totalling of the Purchases Book.

(d) Posting a wrong amount from the Sales Book to the Personal Account.

(e) Compensating Errors.

(2) State which of the statements complete correctly the sentences given below :

(a) Rs. 1,000 paid to the Manager towards Salary must be debited to :

(1) Manager's Account.

(2) Office Expenses Account.

(3) Salary Account

(b) Rs. 500 paid as Wages to workers for the installation of a new Machinery should be debited to :

(1) Wages Account.

(2) Machinery Account.

(3) Factory Expenses Account.

(c) Rs 100 spent on servicing Office Typewriter should be debited to :

(1) Miscellaneous Expenses Account.

(2) Typewriter Account.

(3) Repairs Account.

(d) Goods worth Rs. 250 taken by the Proprietor for domestic use should be credited to :

(1) Proprietor's Drawings Account.

(2) Sales Account.

(3) Purchases Account.

(e) Rs 300 received from S. Ramesh whose account was previously written off as a Bad Debt should be credited to :

(1) S. Ramesh's Account.

(2) Miscellaneous Income Account.

(3) Bad Debts Recovered Account.

[*Ans.* : d (3), b (2), c (3), d (3), e (3)]

(3) Match the two sides :

Part A	*Part B*
(*i*) Entry in the Purchases Book is	(*i*) Credited to Discount Account.
(*ii*) The total of Sales Book is	(*ii*) Debited to Personal Account.
(*iii*) Returns Inwards is	(*iii*) Credited to Supplier's Account.
(*iv*) Total of Discount column on the Payment side of Cash Book is	(*iv*) Credited to Sales Account.
(*v*) A record in Purchase Returns Book is	(*v*) Entered in Sales Returns Book.

[*Ans*: i-iii ; ii-iv ; iii-v ; iv-i ; v-ii]

(4) Fill in the blanks with the appropriate term, using either 'debited to' or 'credited to' :—

(*a*) Sales of old Furniture is ——Furniture Account.

(*b*) Rent paid to landlord is ——Rent Account.

(*c*) Cash received as Interest is ——Interest Account.

(*d*) Discount allowed to a Debtor is——Discount Account.

(*e*) Depreciation written off Machinery is — Depreciation Account.

Short Essay Questions

(5) What is meant by Rectification of Errors? Why is it necessary?

(6) What is a Suspense Account? When is it opened?

(7) Explain the procedure for rectifying errors.

(8) The Book-keeper of a firm has made the following mistakes in posting :

(*a*) A sum of Rs. 160 paid by way of Rent has been debited to Landlord's Personal Account.

(*b*) Furniture sold for Rs. 800 has been posted to Sales Account.

(*c*) An amount of Rs. 400 withdrawn by the Proprietor for his personal use has been debited to Trade Expenses Account.

(*d*) Rs. 45 Cost of repairing the floor of a room has been charged to Building Account

(*e*) Private Expenses Rs. 210, have been posted to General Expenses Account.

Pass entries to rectify the above errors. Will the Trial Balance tally in spite of these errors ?

(Delhi H. Sec. One Year Course 1970)

(9) Pass the necessary entries to rectify the following errors:

(*a*) Rs. 1,000 paid for Furniture purchased has been charged to Purchases Account.

(*b*) Total of Inward Returns has been added Re. 1 short.

(*c*) A sum of Rs. 62 written off Furniture as Depreciation has not been posted to Depreciation Account.

(Delhi Hr. Sec One Year Course 1969)

(10) Show how you would correct the following errors. Give Journal entries :

(*a*) An amount of Rs. 105-94 for a credit sale to H.B. Gupta, although correctly entered in the Sales Book, has been posted as Rs. 115-31.

(*b*) A credit purchase of goods amounting to Rs. 125 from M/s. Vikram & Co , has not been entered in the Purchases Book.

(*c*) Wages paid Rs. 267.50 for installation of new Machine, are debited to Salaries and Wages A/c.

(*d*) Rs. 750 being cash paid for the purchase of Radio set for the Proprietor has been debited to General Expenses A/c.

(*e*) Salary Rs. 125 paid to a clerk due to him has been debited to his Personal A/c. (D.H.S. Board.)

(11) Give Journal entries to rectify the errors in the following cases :

(*a*) A purchase of goods from David amounting to Rs. 150 has been wrongly passed through the Sales Book.

(*b*) A credit sale of goods of Rs. 120 to Peter has been wrongly passed through the Purchases Book.

(*c*) Rs. 300, Salary paid to Cashier, B. Naidu stands wrongly debited to his Personal A/c.

(*d*) Rs. 100 received from Shaw & Co., have been wrongly entered as from Shah & Co.

(Hr. Sec. 1968)

(12) Rectify the following errors :

(*a*) Furniture purchased for Rs. 250 was debited to Purchases A/c.

(*b*) A sum of Rs. 100 paid to Ram was debited in Shyam's A/c.

(*c*) A Bill Receivable for Rs. 500 received from Ram has been omitted to be entered.

(*d*) Goods worth Rs. 200 taken away by the Proprietor was debited to *B*.

(*e*) An engine purchased for Rs. 1,250 had been posted to Purchases A/c.

(Delhi Hr. Sec. 1967)

(13) How would you rectify the following errors?

(*a*) An amount of Rs. 500 withdrawn by the Proprietor for his personal use has been debited to Trade Expenses A/c.

(*b*) Rs. 100 received from Mohan has been credited to Sohan.

(*c*) A credit Sale of Rs. 150 to Sita has been wrongly passed through the Purchases Book.

(*d*) An amount of Rs. 50 paid for Wages was posted twice to the debit of Wages A/c.

(*e*) Periodical total of the Sales Book was cast short by Rs. 100.

(*f*) An item of Rs. 750 paid for the purchase of Office Furniture has been debited to Purchases A/c.

(A.I. Hr. Sec. 1968)

(14) How do you correct the following mistakes?

(*a*) An amount of Rs. 3,000 received from Raghavan was credited to Raman's A/c.

(b) Salaries amounting to Rs. 280 were paid in cash but no entry was made of it at all.

(c) A typewriter bought for Rs. 2,200 was entered in the Tools Account.

(*d*) Dues to Karunakaran Rs. 3,200 were settled by paying Rs. 3,100; and the entry had been made as

Karunakaran A/c Dr.	3,100	
To Cash A/c		3,100

(*e*) An amount of Rs. 250 paid to Gopal for Repairs was entered in his Personal Account.

(M.U. Mar. 1970)

(15) How will you rectify the following errors?

(*a*) A sale of goods to the value of Rs. 600 to Raju has been debited to Raghavan.

(*b*) A purchase of goods from Mohan amounting to Rs. 2,500 has been wrongly debited to his Account.

(*c*) A purchase of goods from Manoharan amounting to Rs. 1,500 has been debited to his Account.

(*d*) A payment of Rs. 600 in respect of Salary paid to the Manager has been debited to his Account.

(*e*) The total of the Discount column on the debit side of the Cash Book has been added short by Rs. 40.

(M. U. Sep. 1960)

(16) The Trial Balance of Patel & Co. Ltd , having disagreed, the difference was temporarily placed on a Suspense Account Subsequently the following errors were discovered and you are required to pass the rectifying entries.

(*a*) A sale of Rs. 30 was wrongly entered in the Sales Returns Book, but the posting there-from was correctly made to the debit of the Customer's Account.

(*b*) A sale of Rs. 12.58 was posted to the Customer's A/c as Rs. 9.78.

(*c*) The addition of the Sales Day Book for the month was undercast by Rs. 100.

(*d*) An item of Rs. 40 was wrongly credited to the Supplier's Account from the Returns Outwards Book.

(*e*) An item of Rs. 105.62 was posted as Rs. 110.31 from the Purchases Book.

(*f*) A Cash Discount of Rs. 20 had remained unposted to the Customer's A/c from the Receipts side of the Cash Book.

(M. U April 1973)

(17) State the type of error invo→led in the following and explain how you will rectify them :

(*a*) A sale of goods to Kannan for Rs. 960 has been entered as Rs. 600 in the Sales Book.

(*b*) A purchase of typewriter for Rs. 1.200 has been entered as Rs. 600 in the Purchases Book.

(*c*) A Discount of Rs. 50 allowed to Senthil has not been entered in the Cash Book.

(*d*) The total of Sales Account is short by Rs. 50.

(*e*) Goods sold to Pasupathi for Rs. 250 has been debited to Rasapath's A/c (Madura Sept. 1968)

(18) What journal entries or adjustment would you make to correct the following errors ?

(*a*) An invoice received from B. Sivaram for Rs. 300 was entered in the Books as Rs. 30 only.

(*b*) Rs. 200 representing the Sales proceeds of Machinery was entered in the Sales Book.

(*c*) A Bill for Rs. 150 Repairs to Machinery, was entered in the Invoice Book.

(*d*) Goods sold to Krishna worth Rs. 50 were debited to his Account as Rs. 500.

(*e*) A Discount of Rs. 20 allowed by Sivaram was not posted to his Account.

(M. U. 1964)

(19) A Book-keeper found his Trial Balance out by Rs. 922 excess credit. He placed the amount in the Suspense Account and subsequently found the following errors :

(*a*) The total of the Discount column on the credit side of the Cash Book Rs. 130 was not posted in the ledger.

(*b*) The total of the Discount column on the debit side of the Cash Book Rs. 52 was omitted to be posted in the Ledger.

(*c*) The total of Purchases Book was short by Rs. 1,000

(*d*) A sale of Rs. 375 to R. Krishna was entered in the Sales Book as Rs. 735.

(*e*) A sale to S. Peter of Rs. 700 has been entered in the Purchases Book.

Rectify the above errors through Suspense A/c. Also give Journal entries.

(20) A Book-keeper failed to balance his Trial Balance, the Credit side exceeding the debit side by Rs. 250. This amount was entered in a Suspense Account. Later the under-mentioned errors were discovered :

Give Journal entries to rectify these errors and prepare the Suspense Account.

(*a*) Goods amounting to Rs. 620 sold to D & Co. were correctly entered in the Sales Book, but posted to D & Co.'s Account as Rs. 260.

(*b*) Goods amounting to Rs. 75 was sold to Mohan for cash. It was correctly recorded in the Cash Book, but was wrongly posted to Mohan's A/c.

(*c*) A credit balance of Rs. 755 of Rent Receivable Account was shown as Rs. 570.

(*d*) The total of Returns Outwards Book, amounting to to Rs. 200 was not posted to the Ledger.

(*e*) Goods worth Rs. 100 was purchased from Prakash Prakashan but the amount was entered in the Sales Book. The Account of Prakash Prakashan was correctly credited.

(*f*) Sales Book was undercast by Rs. 100.

(*g*) The total of the credit side of Sohan's account was over-cast by Rs. 100.

[Delhi Hr. Sec. 1971]

(21) You are presented with a Trial Balance, showing a difference which has been carried to Suspense Account, and the following errors are subsequently discovered :

(*a*) Goods amounting to Rs. 660 sold to White was correctly entered in the Sales Book but posted to White's Account as Rs. 760. The Total Sales for the month were also overcast by Rs. 100.

(*b*) A cash sale of Rs. 150 to Brown, correctly entered in the Cash Book, was posted to the credit of Brown's Personal Account.

(*c*) Goods worth Rs. 130 returned by Green were entered in the Sales Book and posted therefrom to the credit of Green's Personal Account.

(*d*) Goods invoiced at Rs. 1,240 and debited on 20th December to Jacob were returned on the 23rd and taken into Stock on 31st December, no entries being made in the Books.

(*e*) Sales Returns Book was overcast by Rs. 1,000 and the total of a folio in the same Book Rs. 17,300 was carried forward as Rs. 17,030.

(*f*) Bill Receivable from Henry Rs. 1,600 posted to the Credit of Bill, Payable Account and credited to Henry.

Make the necessary correcting entries and show the Suspense Account. (Delhi Hr. Sec. 1965)

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